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SEMINAR ON INSTITUTIONAL FINANCE

FOR

RURAL DEVELOPMENT PROGRAMMES

FOR NORTHERN REGION

NOVEMBER 12-13, 1981

Seminar Coordinators

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THE MINISTRY OF RURAL RECONSTRUCTION
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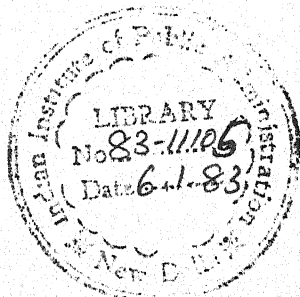
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Background Paper
on
Institutional-Finance and Integrated Rural Development
Programme

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The last few years have witnessed an increasing concern for rural development in general and development of the rural poor in particular. The policy of making a direct attack on rural poverty through programmes like the SFDA which started in a piecemeal manner in the Fourth Five-Year Plan and pursued during the 1970's has now culminated in the Integrated Rural Development Programme. Designed for the poorest among the poor in the rural areas, it has been extended to cover all the 5000 blocks in the country.¹ During the sixth plan period, the programme aims to assist on a priority basis, the poorest 3,000 families selected per block from "the bottom deciles of the rural population below the poverty line." The scheme is to be financed by a combination of subsidies by the government and loans advanced by the cooperative and commercial banks. The government plans to provide Rs.1,750 crores (at the rate of Rs.35 lakhs per block) as subsidy during the period of the Sixth Plan to meet 25% to 33½% of the cost of the schemes. The remaining amount (Rs.3500 to Rs.5250 or say Rs.4500 crores) is expected to be provided as loans by the banking system. Whether the policy of utilising bank credit in the manner stipulated is the most appropriate means of uplifting the rural poor could itself be a debatable point which, we will briefly touch upon in the end. The more important question before

this group which I plan to examine in detail is whether the target of bank lending for this programme can be attained; and if there are doubts then what policy measures should be taken up to facilitate their attainment.

Past Performance and Present Position

A view about the institutional capability of the system can be taken in the light of its past performance and present position. The period since the nationalization of the 14 major commercial banks in 1969 has been characterised by (a) the establishment of a number of institutions such as Farmers Service Societies, Regional Rural Banks, and Credit Guarantee Corporation, (b) expansion of banking facilities in hitherto unbanked rural areas as seen from the increasing number & proportion of rural branches of commercial banks,* and establishment of FSS & RRB, and (c) the introduction of several innovative measures such as the lead bank scheme, preparation of district credit plans, village adoption scheme, differential rate scheme, scheme for adoption of cooperatives by commercial banks, and agricultural credit intensive development (ACID) scheme. As a result there has been a marked increase in the quantum of institutional finance for rural development. The number of accounts as well as the amounts advanced in rural areas have expanded. In the case of commercial banks the number of accounts under both direct and indirect finance to agriculture have steadily gone up from 0.4 million in June 1968 to more than 5 million by the end of 1977. Direct credit

* The number of rural branches increased from 1,832 in June 1969 to 13,333 in June 1979 and their percentage to total number of branches increased from 22.4 to 44.1 during the same period. (Reserve Bank of India, Deptt. of Banking Operations & Development).

to agriculture has increased from Rs.1,912 crores in June 1972 to Rs.3,563 crores in June 1977 and indirect credit from Rs.369 crores to Rs.1,033 crores. Taking the two together the short term loan outstanding as at the end of June 1977 amounted to Rs.1,990 crores as against Rs.1,003 crores in January 1972 and medium and long term loans totalled Rs.2,606 crores against Rs.1,278 crores. As a result, the share of institutional sources in total credit availability in rural areas has gone up from 7.3 per cent in 1951-52 (as revealed by the All-India Rural Credit Survey) to 18.4 per cent in 1961-62 (vide All India Rural Debt and Investment Survey 1961-62) and further to 31.7 per cent in 1971-72 (vide, All-India Debt and Investment Survey 1971-72). Also, the share of the commercial banks in the total institutional finance has been going up and that of cooperatives going down even though the latter continues to be the principal agency for providing institutional credit in rural areas.

Table 1

Percentage Share of Different Institutions in Institutional Finance for Agriculture

Type of Loans	1974	1975	1976	1977	1978
<u>Short-term Loans</u>					
Cooperatives	84.79	84.95	82.96	80.08	77.77
Commercial Banks	8.17	9.83	12.26	15.11	15.56
Government	7.04	5.22	4.70	3.95	4.35
Regional Rural Banks	-	-	0.08	0.86	2.32
<u>Term Loans</u>					
Cooperatives	56.57	58.39	53.21	55.76	52.98
Commercial Banks	30.08	25.88	33.54	32.70	36.54
Rural Electrification Corporation Limited	13.45	15.73	13.25	11.54	10.48

Source: Reserve Bank of India, Bombay, Reports on Currency & Finance.

However, even now, about two thirds of the credit requirements in rural areas are met by non-institutional sources. Patches of unbanked areas be scattered throughout the country specially in the deep interior and the so-called banked areas suffer from several limitations. The weaknesses of the cooperatives which still constitute the most important source of institutional credit are well known and need not be elaborated upon. A majority of these have not become viable so far. Many of them are dormant or defunct. They depend heavily on government or the government's cooperative funding agencies even after several years of operation. As regards the commercial banks, they have not yet reached villages in the deep interior despite the phenomenal expansion of their branches. Moreover, what is more disturbing is that several of the rural branches of commercial banks become instrumental in diverting funds from rural to urban areas. The credit deposit ratios in rural areas of 62% of the districts in the country have continued to be lower than the national average or even the stipulated 60 per cent (to be attained by June 1978) as laid down by the Government. In 72 districts (19%) the ratio was upto 20 per cent only.² The various innovations introduced by the commercial banks have had only a limited coverage or success. The credit plans prepared by the lead banks have remained by and large paper exercises without much operational significance. The village adoption scheme introduced in 1970-71 could cover only 70,270 villages or nearly 10 percent of the villages of the country by the end of December 1978. And there is a feeling that bulk of these villages do not belong to the category of villages which should have been given preference as per the original design of the scheme namely those where banking had not made much headway. As regards the scheme for adoption of cooperatives by commercial banks, the progress is extremely slow. Not more than 604 branches of 24 banks were participating in the scheme in the

year 1978. The number of societies involved was only 3,435 and the total credit disbursed by banks through these societies has been Rs.36 crores. The average number of societies per branch works out to be less than 6 as against the norm of 10 adopted to ensure operational viability of the scheme and the optimum utilisation of the field staff. And the amount of credit disbursed to each society comes to about Rs.1 lakhs as against the adopted norm of Rs. 2 lakhs.³

The performance of the Farmers Service Societies has been dismal. The number of such societies could increase only upto 1,774 by 30th June, 1979.⁴ Studies of the FSSs have highlighted the structural weaknesses of this agency because of which it has not been able to take off. In a recent study of 166 FSS by the Agricultural Credit Department of the Reserve Bank of India, it was found that (i) the provision that about two thirds of the elected members of the boards of directors should represent the weaker sections is not adhered to in various states; (ii) about one third of the societies studied had not been provided with any technical staff or assistance; (iii) nearly 45 per cent of the societies had not issued any medium term loans for agricultural purposes and only three societies had issued long term loans; (iv) 46 per cent of the societies were not supplying even agricultural inputs and those giving this service had done meagre business; and (v) as many as 80 percent of the societies had not undertaken marketing of agricultural produce of the members.⁵

The Regional Rural Banks have not been able to disburse loans to the extent that they could have done. These banks are permitted to lend Rs.one crore for every Rs.15 lakhs of their own deposits. Total advances by these banks aggregated to Rs.167.40 crores in December 1979 and the total deposits to Rs.123.22 giving a credit deposit ratio of 136 per cent⁶

as against the potential of 666 percent. Moreover, the geographical distribution of such banks has been quite uneven. Unbanked and under banked areas of North-Eastern region, Jammu and Kashmir, Himachal Pradesh, Assam have been rather poorly covered.

The inadequacies mentioned above become specially serious for certain states and certain areas on account of marked regional disparities which exist in this sphere. According to the All-India Debt and Investment Survey, 1971-72 conducted by the Reserve Bank of India, Institutional credit accounted for less than one fourth of the cash debt of rural households in states like Bihar (10.7%), Rajasthan (9.4%), Andhra Pradesh, (13.7%) Jammu & Kashmir (20.4%) in contrast to 67% in Maharashtra, 47% in Gujarat, 44% in Kerala and 36% in Punjab. (Table 2). And according to figures compiled by the Review Committee of the Regional Rural Banks, the per hectare total credit available from both cooperative and commercial banks in 1975-76 was as low as Rs.41 in Orissa, Rs.45 in Bihar and West Bengal, Rs.47 in Rajasthan and Rs.50 in Madhya Pradesh against Rs.268 for Kerala, Rs.224 for Tamil Nadu Rs.189 for Punjab and Rs.96 for the country as a whole (Table 3). A study conducted by Dr.R.D. Sharma in the Bhagalpur district of Bihar confirms the general impression that the impact of bank credit in backward areas has been very little. Hardly 1 per cent of the credit requirement was met by banks during the years 1969-74 and only 0.3% of the farmers could be picked up for bank lending. Another significant revelation was that a major part of the district consisting of 16 out of 21 blocks remained untouched by banks. Credit deposit ratio stood at as low as 21.8 per cent.⁷

Table-2

Share of Institutional/Non-Institutional Agencies in the
Total Cash Debt of Each Category of Rural House-holds.
(in per cent)

States	Institutional Agencies				Non-Institutional Agencies			
	All Rural House-holds	Culti-vators	Agri-culture labourers	Ar-ti-Rural House-holds	Culti-vators	Agri-cul-tural labourers	Arti-sans	
	1	2	3	4	5	6	7	8
1. Andhra Pradesh	13.7	15.3	2.1	1.9	86.3	84.7	97.9	98.1
2. Assam	34.7	35.7	17.9	50.0	65.3	64.3	82.1	50.0
3. Bihar	10.7	11.5	1.2	-	89.3	88.5	98.8	100.0
4. Gujarat	46.9	51.9	4.2	1.1	53.1	48.1	95.8	98.9
5. Haryana	26.4	30.6	4.8	6.5	73.6	69.4	95.2	93.5
6. Himachal Pradesh	23.9	24.1	4.5	40.0	76.1	75.9	95.5	60.0
7. J & K	20.0	20.0	-	66.7	79.6	79.6	100.0	33.3
8. Karnataka	29.7	30.6	8.4	5.9	70.3	69.4	91.6	91.1
9. Kerala	44.4	45.2	13.3	31.2	55.6	54.8	86.7	68.8
10. Madhya Pradesh	31.6	33.4	3.2	-	68.4	66.6	96.8	100.0
11. Maharashtra	67.4	70.7	10.6	8.8	32.6	29.3	89.4	91.2
12. Orissa	30.0	32.4	1.9	7.4	70.0	67.6	98.1	92.6
13. Punjab	36.0	43.9	9.5	12.1	64.0	56.1	50.5	87.9
14. Rajasthan	9.4	9.8	2.5	7.6	90.6	90.2	97.5	92.4
15. Tamilnadu	22.1	24.3	1.9	2.4	77.9	75.7	98.1	97.6
16. Uttar Pradesh	23.4	26.5	1.9	3.7	76.6	73.5	98.1	96.3
17. West-Bengal	30.6	33.1	5.3	-	69.4	66.9	94.7	100.0
All-India	29.2	31.7	4.5	4.8	70.8	68.3	95.5	95.2

Source: Reserve Bank of India - All India Debt and Investment Survey 1971-72

Table - 3

Per Hectare Loans Issued by Co-operatives and Commercial Banks - State-wise Position

States	Gross Cropped Area(In thousand hectares) *	PACs Loans issued during 1975-76@	LDB Direct Lonsfinance advanced by sche- duled issu-Commer- ed ducial Banks ring (April- 1975-76 March) **	Total (2+3+4)	Per hectare total credit available (Rs.)	
1. Andhra Pradesh	126,52	73,51	35,42	49,50	158,8	125
2. Assam	23,14	N.A.	18	27		N.A.
3. Bihar	106,83	22,00	16,22	9,51	47,73	45
4. Gujarat	99,33	132,62	6,52	19,09	158,23	159
5. Haryana	50,48	43,52	14,41	10,62	68,55	136
6. Himachal Pradesh	9,01	5,81	21	1,32	7,34	82
7. J & K	8,61	N.A.	19	26		N.A.
8. Karnataka	109,88	86,05	21,02	49,13	150,45	137
9. Kerala	29,58	46,88	3,05	29,36	79,29	268
10. Madhya Pradesh	208,92	69,55	17,01	17,05	103,61	50
11. Maharashtra	174,81	170,01	23,12	29,32	221,45	127
12. Orissa	70,42	20,66	3,37	5,06	29,09	41
13. Punjab	57,24	74,98	16,98	16,36	108,32	189
14. Rajasthan	167,73	59,65	6,82	11,55	78,02	47
15. Tamil Nadu	76,42	102,85	15,88	52,63	171,36	224
16. Uttar Pradesh	230,25	95,09	30,43	29,74	155,26	67
17. West- Bengal	72,71	21,24	4,31	7,36	32,91	45
	16,40,02	10,21,782	15,35	3,41,20	15,78,33	96

*Agriculture in Brief-14th Edition.

@Statistical Statements relating to Co-operative Movement in India, 1975-7

** D.B.O.D. Returns.

N.A. = Not available.

Source: Reserve Bank of India - Regional Rural Banks:

Report of the Review Committee, p.93.

It has been noticed that the entry of commercial banks in the field of rural credit has in no way helped to reduce the inter-state disparities existing before. Commercial banks' agricultural credit has been additive and has not helped to fill the geographical gap in the availability of credit not covered by the cooperatives.⁸

Neglect of the Weaker Section

It is, therefore, obvious that the institutional base of the rural credit structure continues to be weak despite efforts made by the government during the last ten years. The weaknesses become glaring when attention is focussed on the target group of the Integrated Rural Development programme namely the poorest among the rural poor consisting of landless labourers, rural artisans, scheduled castes & tribes who do not own enough land and wealth to generate sufficient income and savings for meeting their needs of consumption and investment. The extent of indebtedness in this group has been increasing. According to the information supplied by the Rural Labour Enquiry of 1974-75, the proportion of farm labour households which were indebted moved up from 60.6 per cent in 1964-65 to 66.4 per cent in 1974-75. The incidence of indebtedness was more than 70 per cent in some states like Bihar, Rajasthan, Andhra Pradesh, Tamil Nadu, Kerala, Punjab & Haryana. However, this class has virtually been neglected by both the cooperatives as well as the commercial banks as table 4 would indicate.

It can be seen that in 1974-75 the cooperatives supplied only 3.1% and commercial banks 1.8% of the total debt availed of by the agricultural labourers. The spread of institutional sources of credit did not have any impact on this class. In fact, their dependence on the money-lenders increased during the period 1964-65 to 1974-75. The fact that the poorest section of the rural society which is the target

Table 4

Average Amount of Debt per Indebted Agricultural Labour Household by Source of Debt

<u>Institutional</u>		(in rupees)		
International and non Institutional Agencies	1964-65	1974-75		Total
		With Land	landless	
(1)	(2)	(3)	(4)	(5)
Money-lenders	75 (30.6)	320 (48.5)	234 (47.0)	279 (47.9)
Others	91 (37.3)	176 (26.7)	130 (26.2)	155 (26.5)
Employers	48 (19.7)	46 (6.9)	75 (15.0)	59 (10.2)
Shopkeepers	18 (7.3)	43 (6.3)	45 (7.0)	39 (6.7)
Cooperatives	12 (5.1)	45 (6.8)	15 (3.1)	31 (5.3)
Banks	(-)	31 (4.7)	9 (1.8)	21 (3.5)

Sources: Rural Labour Enquiry 1974-75, Final Report on Indebtedness Among Rural Labour Households, Labour Bureau, Ministry of Labour, Govt. of India, Chandigarh (pp.120-123) also pp.114-115
Figures in brackets indicate percentages.

group for the newly launched Integrated Rural Development Programme has been neglected by institutional agencies is confirmed by other findings also. Thus a report on the evaluation of Small and Marginal Farmers. & Agricultural Labourers' Projects by the Programme Evaluation Organisation of the Planning Commission has revealed that agricultural labourers have been almost neglected in the matter of credit; their share in total loans advanced till 1973-74 was only one per cent.⁹

According to the data supplied by the All-India Debt and Investment Survey, 1971-72, the percentage share of institutional credit agencies in the total debt of each category of household is very low for low asset groups and is 4.5 for agricultural labourers and 4.8 per rural artisans. (table 5) Even in states like Maharashtra having a good network of institutional agencies, the share of institutional sources in the debt of agricultural labourers was less than 20 per cent.

Table - 5

PERCENTAGE SHARE OF THE INSTITUTIONAL AGENCIES IN THE
TOTAL DEBT OF EACH CATEGORY OF HOUSEHOLD AS ON JUNE 30, 1971

All Rural Households	29.2
Cultivators	31.7
Small Cultivators, Asset group:	
(Rs.) 0-500	6.2
" 500-1000	6.3
"1000-2500	10.4
"2500-5000	14.5
Agricultural Labourers	4.5
Rural Artisans	4.8
Other non-cultivator rural households	16.8

Source: All India Debt & Investment Survey, 1971-72.

Among the various sources of institutional credit in rural areas, the cooperatives continue to occupy a predominant position. However during the year 1976-77, only 3 per cent of cooperative credit went to the weakest section consisting of tenant cultivators agricultural labourers and others without land holding. The share of agricultural labourers was less than 1 per cent. (Table 6). Even these figures may be over

estimates since it is known that there are a number of benami transactions under which bigger landowners borrow in the name of small farmers and landless labourers. As regards the Farmers Service Societies, their performance in this respect has been found to be not better than that of the cooperatives.¹⁰

The Regional Rural Banks, created a few years ago, were expected to provide greater assistance to the weaker section. However, their performance on this count was not found satisfactory by the Review Committee of the Regional Rural Banks. "Out of the 12 RRBs surveyed, 7 had given loans to about 3 to 7 per cent of the total number of small and marginal farmers, the relevant percentage in the case of the remaining RRBs was hardly around one per cent. The rural artisans and other weaker sections assisted by the 7 RRBs formed about 30 to 9 percent whereas for the remaining 5 RRBs this was again hardly around one per cent. The proportion of agricultural labourers financed was, however, less than one per cent in almost all the districts except Bhiwani and Jaipur."¹¹ The Regional Rural Banks seem to be catering to the better-off sections among the weaker sections and their definition of weaker sections is also quite generous.

At the same time, it must be said to the credit of the Regional Rural Banks, that, as compared to other institutions, they are deploying a far greater proportion of their resources to the weakest section of rural society. Thus according to a study,¹² the Haryana Bank, Bhiwani had deployed 60% its total advances as at the end of December to landless agricultural labourers. And the Jaipur Nagaur Aanchalik Gramin Bank, Jaipur Advanced 11 to 12% of its loans to agricultural labourers, 11 to 26% to rural artisans and 13 to 20% to small

traders & self employed during the years 1975, 1976 and 1977. However, in view of the very small coverage of such banks, their impact on the availability of institutional credit to the poorest section in the country as a whole has at most been marginal.

More than production credit, an overriding need of the poorest section is for consumption credit for meeting the requirements of deficit budgets and essential social functions. Quite often credit taken ostensibly for productive purposes are diverted to meet consumption requirements. The Export Committee on Consumption Credit, 1976 (Chairman: B.Sivaraman) had recommended for the supply of such credit to this section, but the progress achieved has been disappointing. The Committee had estimated the consumption needs of the weakest sections at Rs.170 crores for 1976-77. The target fixed for cooperatives in June 1976 was Rs.115 crores. However they could provide only Rs.2.28 crores for this purpose by the end of December 1976.¹³ As regards Farmers Service Societies, it was found that more than 90 per cent of such societies had not issued consumption loans thought it was thought of as an essential service. The performance of the Regional Rural Banks as evaluated so far has been equally unsatisfactory in this respect.¹⁴

In order to encourage the flow of institutional finance to the weaker sections, the Government of India introduced the differential rate of interest (DRI) scheme in 1972 under which the public sector banks are allowed to provide loans at highly concessional rate of interest (4 per cent per annum) to those with annual family income not more than Rs.2,000 in the rural areas and Rs.3,000 in the urban areas. An individual can borrow, as per the requirement of the proposed scheme, upto Rs.1,500 as the working capital loan and Rs.5,000 as the

term loan. In 1978-79 banks were instructed to lend a minimum of 1 per cent, as against 0.5 per cent earlier, of their total advances under this scheme. In order to safeguard the interest of rural areas, operating banks are required to channelise not less than two-thirds of their advances through their rural and semi-urban branches. And at least 40 per cent of the credit should be advanced to members of scheduled castes and tribes. The amount per account under the scheme increased from Rs.333 in December 1972 to Rs.620 in June 1979, the number of borrower accounts from 26,202 to 18,33,970 and the amount outstanding from Rs.87 lakhs to Rs.113.60 crores during the same period.

The authorities have taken other steps also to encourage the flow of institutional credit to the weaker sections. In the year 1978, the Reserve Bank of India formulated a scheme called the "Small Farmers Window" so as to provide an incentive to banks to increase their lending to small farmers. According to this scheme, Lower interest rates at 10.5 to 11% are to be charged from people of small means and refinance at Bank rate provided to commercial banks for financing small farmers at not more than 11 per cent.

Recently the ARDC has extended the concession of 90 per cent refinance for all purposes at present available for SFDA and special schemes for the benefit of S/C, S/T, etc. as well as to such special programmes as IRD, CADA, Desert Area Development and Hill Area Development and for the schemes for weaker sections undertaken under the aegis of the special agencies constituted for the purpose subject to certain conditions.¹⁵

Supply of Bank Credit:-

If past performance is any guide, banks will find it extremely difficult or almost impossible to meet the

requirements of credit as stipulated under the Integrated Rural Development Programme. Three aspects are relevant. First, raising the level of advance per target group borrower to Rs.3,000; second, widespread distribution throughout the country; and third, the overall quantum of funds involved. Raising the advance level to Rs.3,000 would imply a big jump from the existing levels which are still below Rs.1,000. In the case of cooperatives, the most important institution for rural areas, the average amount of loan given per borrower in 1976-77 was as low as Rs.300 for agricultural labourers and Rs.450 for the weakest section as a whole. And in the case of commercial banks advances given under the DIR scheme, the amount was about Rs.620 in June 1979. In the case of Regional Rural Banks, separate figure for the poorest class is not available, but must have been lower than Rs.1,000 which is the average level to Rs.3,000 in sure to put a tremendous strain on the administrative capability of the banking system specially in states and areas where banking has yet to develop.

The spreading of the IRD programme throughout all the 5,000 blocks in the country would require easy access to sources of institutional finance in every village and would, therefore, require establishment of banking facilities in the remotest corner of the country. Can this be brought about during the remaining three and half year period of the Sixth Five Year Plan? The cooperatives are, of course, there. But as mentioned earlier, most of them are either defunct or dormant or unviable. Besides, judging from the past experience, can the present biased management of the cooperatives under the control of the powerful rural rich be trusted with the responsibility of diverting loans in favour of the rural poor? Commercial banks and Regional Rural Banks can meet the challenge only when their expansion in areas in which they are not to be

found are taken up on a massive scale and on a priority basis. The feasibility of this specially in terms of requirements of manpower consistent with a certain level of efficiency is yet to be worked out. Problems related to inadequacy of skilled manpower and decline in quality of service have already emerged as critical factors in India banking. Problems related to delegation of power would also arise. We plead for decentralisation from platform, but practice centralisation in our offices. Decisions on spread of institutional agencies have so far been characterized by adhocism. In the absence of a systematic approach, the operation of the multi-agency system as it has been working so far has given rise to problems such as lop sided development of banking facilities, overlapping of areas, double or multiple financing, concentration on better areas, better villages and more well-to-do farmers. The worst part of the matter is that it is very difficult to fix responsibility on any particular bank for planning and implementing credit programmes. This is one reason why the so called district credit plans have remained just paper exercises so far. The block-wise credit programmes as would be required under the IRDP area likely to meet a similar fate. There is, therefore, an urgent need for bringing about an integration between the different agencies through some restructuring of the territorial jurisdiction of different types of institutions which is desirable even otherwise for improving their efficiency and reducing costs. This is, however, not easy on account of the vested interests of different banks specially with respect to personnel aspects keen on maintaining their separate identity. The subject has been discussed quite often in the past without yielding any practical result. Several alternatives are available. One method is to specify the spheres of commercial banks, rural banks, cooperative banks, and

farmers service societies etc. and to establish proper linkages between them. One can even try to integrate the postal savings organisation which already has a wide spread network of offices in rural areas. For example, instead of insisting that the Primary Credit Cooperative Societies must act as savings mobilisation agencies also, it would be more productive and easy to make postal savings organisation more vigorous and efficient and link it directly or indirectly with credit societies.¹⁶

Or, the commercial banks may adopt primary societies as their agents or subsidiaries which may work at the base, develop their organisation by providing with professional managers and canalise finance through them, while they themselves work at the district level.¹⁷ One may even think of linking the cooperatives to the lead bank of the district. This arrangement may not pose many problems at the village level as there are very few branches of commercial or rural banks at that level. But what will be the structure of higher levels? What will happen to the district and central cooperative banks? Or should they be taken over by regional rural banks or some commercial banks? Whom to hold responsible for formulating and implementing credit plans? Questions like these have to be sorted out.

The problem of supplying a sum of RS.4500 crores to the target group in five years or RS.900 crores per year on an average may turn out to be even more formidable. The amount advanced so far has been limited despite governmental encouragement, and is not likely to exceed RS.250 crores for the year ending December 1980.¹⁸ Supplying Rs.4,500 crores in the next five years would imply a growth rate of such advances by 50 per cent per annum which cannot be attained. The growth rate that seems feasible with appropriate administrative support is not likely to exceed 20 per cent. This will achieve only 50 per cent of the target. Even this is on the high side

because, apart from meeting the credit needs of the IRD programme, banks would also be required to meet the credit needs for productive purposes of other members of the poorest class not covered within the IRD but falling within the ambit of their routine on-going activities as well as credit for consumption requirements which become most pressing for the rural poor. The target is, therefore, unrealistic and over-ambitious and one wonders whether any planning exercise was done before fixing it. Needless to say, it makes a mockery of the entire planning process.

The task will become even more difficult on account of the problem of overdues which are rising both absolutely as well relatively and all types of institutions - cooperatives, commercial banks and regional rural banks - are feeling their impact. During the cooperative year ending June 30, 1979, the percentage of overdues to outstanding loans of primary agricultural credit societies stood at a high level of 45.2 per cent.¹⁹ The effective amount would be more because of the practice of renewing old loans. There are reports that the Regional Rural Banks are also encountering this problem. And according to a news report published in the Economic Times of 29th December 1980, the overdues in the case of DIR advances of some of the commercial banks touch as high as 80% of the respective outstandings. Rising overdues reduce the ability of credit institutions to advance further loans and thereby reduce the supply of institutional finance. It has already affected the capability of the cooperatives several of which have been become defunct or non-viable.

The problem of the overdues is really very serious; that of wilful default is even more so. It may be that the poorest sections do not command enough political power & contacts to become wilful defaulters and there is some evidence

to show that their performance in repaying loans has been somewhat better than that of the richer sections of rural society. However, the recent decision of some of the state governments in writing off debt taken from institutional sources is bound to have a very adverse effect in this respect. It is likely to encourage further default and overdues and to strike at the very root of the banking system and therefore should be viewed with grave concern. Such measures in so far as they do not distinguish between wilful default and default on account genuine. Difficulties, are unfair to borrowers who repay their loans promptly.

Appropriate steps are, therefore, needed to deal with this problem. These may include, better evaluation of projects for which loans are to be sanctioned, greater supervision and better monitoring of loans, adoption of stern measures to ensure repayment on the lines suggested by the Study Team on Cooperative Overdues (1974) or introducing crop and cattle insurance, though the latter is likely to put further strain on the administrative system and involve huge subsidies.²⁰ In this connection, a model bill had been prepared by the Talwar Committee in 1971. Only sixteen state governments have enacted legislation on the lines of the model bill and even in these enactments certain important provisions have and not been incorporated. The machinery set up by the State Governments for recovery purposes is also inadequate to cope with the cases referred and out.²¹

It is not clear how the financial institutions are going to provide the stipulated amount. Large scale diversion of funds from other users such as the urban sector or the rural rich who are no less powerful, is not feasible in a democratic set-up like ours. Faster rate of deposit mobilisation, which

could be another source, seems unlikely in view of the risk of fall in real value of savings on account of the rise in prices. Banks in general and cooperatives and the regional rural banks in particular have been finding it difficult to mobilise adequate deposits. This leaves the field open for credit creation resulting in expansion of money supply, the inflationary implication of which would be against the interest of the society, specially of the weaker sections.

In addition, bankers' readiness to advance small loans specially to the poor is likely to be limited on account of their inadequate experience in this respect and the fact that the cost of credit administration per unit of credit advanced, being a negative function of the size of credit per borrower, is generally higher for small loans while the rates of interest to be charged on loans as determined by the government are generally lower. (Though the risk element is also high but the amount loaned per borrower is so low that on the whole the risk involved cannot be regarded as high). The national, regional or local targets (fulfilment of which forms the basis for judging the performance of banking staff) are easily attained by giving preference to large borrowers. Hence, there develops a natural tendency on the part of banks to supply less credit to the weaker sections. Besides, the cooperatives, as developed in our country, have been under the control of the rural rich to serve their interests. These considerations, therefore, further reduce the probability of the banking system in meeting the credit requirements of the IRD programme unless they are compelled to do so by adopting a policy of earmarking a certain percentage of their total advances to the target group i.e. the poorest of the poor. Moreover, this earmarking has to be done not so much at the national level as at the regional and local levels so as to ensure that the poor in the backward areas, the most neglected

section so far, get their due share. Norms of judging staff performance would also require a review. However, no such change in policy has been announced so far even though the need for earmarking was recognised in the draft framework of the 6th Five Year Plan document prepared in August 1980 and reiterated subsequently in the final plan document. The announcements of changes in credit policy made by the Finance Minister on 24th October, 1980 while speaking at Srinagar, before the Regional Consultative Committee of the Nationalised Banks in Northern India,²² fail to cover all the points made above. According to him, the government has decided (i) to raise the target lending to the priority sector consisting of agriculture, small industries and exports from the existing 33.3% to 40% (ii) to earmark 40% of priority sector lending to agriculture (iii) to allocate 50% of direct lending for agricultural and allied activities to small and marginal farmers and agricultural labourers and (iv) to reserve 12% of credit by banks to small scale industries to rural artisans, village craftsmen and cottage industries. What is missing in this policy announcement is the provision for ensuring application of these guidelines uniformly throughout the country and the establishment of a system of Monitoring and follow-up. This should be done as early as possible. While implementing this policy, care should be taken to adopt appropriate measures for minimising the scope for b nani which may develop otherwise.

Demand for Institutional Finance

I am sceptical about the adequacy of the demand for institutional finance to the stipulated amount from the rural poor. As one case study of a Regional Rural Bank in Haryana points out, the experience of the bank showed that there was no great flush of requests for loans from the bank from the weaker sections of the rural society. The bank staff had to

make special efforts to find eligible borrowers who would hopefully have the capacity to repay the loans at the rate of interest of about 14 per cent per annum.²³ The problem persists despite the change in approach from 'security based lending' to 'project based lending' because of the dearth of bankable projects and ability to formulate them that the prospective borrowers from the weaker sections can present. This, in turn, is related to the strength of developmental and extension activities of the existing governmental machinery and the extent of coordination between them and the banks. For various reasons such as, inadequate infrastructural facilities, paucity of resources, incompetent and disinterested administrative system, absence of an appropriate planning machinery etc., the existing system has been found to be deficient and would require considerable toning up specially in the more backward states where the credit gaps are more pronounced. The present seminar may fruitfully discuss this aspect and suggest measures for improvement.

It should also be remembered that creation of profitable opportunities would require the timely availability of not only credit but other necessary inputs and services. Quite often ostensibly good projects fail to give the expected results because of the non-availability of some of the required facilities. One way out of this could be for the financial institutions to transcend the limited role of providing credit and perform increasingly the functions of development institutions motivating customers and providing besides credit, a package of diversified inputs and services like seeds, fertilisers and marketing. The Farmers Service Societies were conceived on this pattern. But their experience so far has been far from encouraging. The question to examine is whether it is administratively feasible to have a single agency for providing

all inputs and services including credit? Will not the resulting organisation become too complex to be managed efficiently by the talents available at the local levels? Will it not be better if non-credit services continue to be provided by other agencies which may be required to work in close collaboration with financial institutions? But then the problem would be, how to bring about this coordination? One such method tried by Dena Bank in Orissa, was for bank officials and local government officials camping in each village to identify potential borrowers and disburse credit.²⁴ Several other alternatives could be thought of. The seminar participants may share their diverse experience in this respect and come to a consensus on some of them.

Another reason why the weakest section prefers to keep itself away from the banking system is the emerging corruption associated with the grant of subsidised loan. Since there is a minimum amount of ex-gratia payment, its incidence per unit of loan is more on loans of smaller magnitudes. According to the procedures adopted so far under the subsidy-cum-loan programme, payments of the subsidy and loan are made not to the beneficiary but to the supplier of the input or asset such as the seller of bullock, if the subsidy is to be provided for purchase of livestock. As soon as the authorities come into the picture, the sale price of the bullock is reported to be raised by 25% to 50% the extra amount being shared by officials of the government, the bank, middleman if any, and the seller. This amounts to raising the cost and lowering the profitability of the project. A beneficiary, if he intends repaying loan, would obviously become less interested. In addition, there is the problem of cumbersome procedure, delays and rigidities which have been discussed for long as a result of which the poor people tend to prefer the village money lenders to banks.

While procedures may be simplified, one does not know how to deal with the problem of emerging corruption. There are also reports of benami transactions; the rich take loans in the name of the poor so as to take the benefits of subsidised interest rate under DIR or overcome their credit limits. In the absence of enough genuine demand for bank credit from the target group such benami transactions may become more widespread. The seminar may suggest steps for dealing with these problems.

As already noted, the most pressing need of the rural poor is for consumption loan. It is not clear whether the IRD programme has made any provision for this. Faced with pressing consumption requirements, borrowers may be and are forced to divert production loans to consumption purposes or sell the productive assets if these have already been acquired. As a result, the impact of finance on raising the levels of the beneficiaries is likely to be less than may appear at the first sight.

Before concluding I would like to raise another issue. How far is it desirable to have a strategy for the development of the poorest section on the basis of institutional credit? Can their problem be solved by grant of credit at an individual level? Do they have the tradition and motivation for entrepreneurship? Provision of jobs would be more useful than that of credit which they are likely to use for their ever pressing consumption requirements. If credit is to be given, then it should be supplied not to the individuals but to groups of such people engaged in such productive activities like marketing of agricultural or dairy product, installation and operation of tubewells etc. For this purpose cooperatives or associations of a few families such as 10 to 15 may be formed and credit advanced. Supervision and recovery of loan would also be easier in this case.

TABLE - 6

Primary Agricultural Credit Societies. 1976-77

Loans and Advances

Category of borrower (1)	No. of borrowers (in 000) (2)	Amount Rs. (000) (3)	Amount per borrower (4)	% to total credit (5)
1. Tenant cultivators	334	1,95,089	584.10	1.62
2. Agricultural Labourers	281	82,621	294.03	0.69
3. Others without land holding	225	97,306	432.48	0.81
4. Total of 1st three	840	3,75,016	446.45	3.10
5. Those having land upto 1 hectore	5,155	17,75,243	344.38	14.57
6. Those having land between the 1 and 2 hect,rs	4,039	24,31,454	602.00	20.09
7. Total of all borrowers	17,190	1,21,0,432	704.22	

Source: Reserve Bank of India - Statistical Statements Relating to the Cooperative Movement in India 1976-77 Part I Table No.32.

Footnotes

1. IRDP covers the entire country - Press Release, 2nd October, 1980, Department of Rural Reconstruction, Government of India.
2. Reserve Bank of India, Report on Currency & Finance 1978-79.
3. Government of India, Ministry of Agriculture, Annual Report 1979-80; p.89
4. Ibid
5. Report of the Review Committee on Regional Rural Banks Reserve Bank of India, Bombay p.21
6. Government of India, Ministry of Agriculture, Annual Report, 1979-80.
7. R.D. Sharma, Bank Credit and Agricultural Transformation in a Backward Region. The Indian Economic Journal Vol.26, No.2, Oct-Dec.1978, pp.61-69.
8. Report of the Review Committee on Regional Rural Banks p.32
9. Programme Evaluation Organisation, Planning Commission, Government of India, New Delhi - Report on Evaluation Study of Small Farmers, Marginal Farmers and Agricultural Labourers Projects 1974-75.
10. Report of the Review Committee on Regional Rural Banks op.cit. p.22.
11. Ibid, pp.49-50
12. C.D. Wadhwa, Rural Banks for Rural Development, The Macmillan Co. of India Ltd., 1980. Ch.II
13. Report of the Review Committee on Regional Rural Banks op.cit, p.18
14. Ibid pp.21-22
15. Government of India, Ministry of Agriculture, Annual Report 1979-80, p.107.
16. L.M. Bhole, Financial Structure for Rural Development: In Retrospect and Future Perspective. The Indian Economic Journal Vol.26, No.2, Oct-Dec. 1978, pp.1-9.
17. R.D. Sharma, op.cit.

18. This amount has been estimated by the author of the present paper from the available data.
19. Government of India, Ministry of Agriculture, Annual Report 1979-80.
20. For details of a crop insurance scheme which has been adopted for implementation on a pilot basis by the authorities, please see V.M. Dandekar, crop insurance in India, Economic & Political Weekly, Vol.XI(26) Review of Agriculture.
21. Chairman's Speech, 26th Annual General Meeting of the shareholder of the State Bank of India on 31st March 1981 as reported in the Statesman 5th April, 1981.
22. The Statesman, 25th October, 1980.
23. C.D. Wadhva, op.cit. p.85
24. B.C. Parida - Leading Issues of Rural Banking in a scheme of Rural Development (Typescript communicated to the author).

Sub: Institutional Finance for Rural Industrialisation
and Training of Rural Youth for Self-Employment

By

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1. IRD and rural industrialisation

1.1. The principle objectives of the Integrated Rural Development Programme are - solving the problem of rural unemployment and under-employment and reducing the incidence of poverty. These objectives are sought to be achieved by implementation of various beneficiary-oriented programmes in the primary, secondary and tertiary sectors of the economy. While substantial additional employment opportunities can be created in agriculture and allied activities, it has been recognised for some time now that considerable diversion of the surplus labour available from the farm to the non-farm sector is imperative. It is in this context that the promotion of village and cottage industries including the tiny industries and of activities in the tertiary sector has assumed importance.

1.2 In the past, programmes were often executed individually and in isolation, without taking the family as a unit and the attainment of its economic viability as the objective. The Integrated Rural Development which is now being undertaken in 2600 selected blocks aims at making the family economically viable and self-sufficient. Where the family holding is of an uneconomic size, income will have to be supplemented by subsidiary occupations. Suitable rural industries and artisanal programme will, therefore, have to be designed for small and marginal farmers, landless labourers, rural artisans and craftsmen with maximum emphasis on utilisation of local resources and skills.

1.3 It is in the above background that the rural industries and services sector was included as a part of the IRD programme in February, 1979. The guidelines issued on the subject stated that in addition to the 300 families being selected in each IRD block for agricultural and allied activities, additional 100 families should be selected for the industries and services sector every year.

2. TRYSEM

2.1 Subsequently, the idea of training rural youth for self-employment was developed further and this resulted in the scheme known as TRYSEM (Training of Rural Youth for Self-employment). The main aim of TRYSEM which covers both IRD and non-IRD areas is to train at least 2 lakh rural youth every year in the primary, secondary and tertiary sectors, so that they can be groomed for self-employment. Each block in the country has thus to cover a minimum of 40 youth on an average.

2.2 The main thrust of TRYSEM is on equipping rural youth with necessary skills and technology to enable them to seek self-employment. For this purpose, the capacity available in existing training institutions in the country would be fully utilised and wherever necessary augmented. The training courses will have a practical bias, based on the concept of learning by doing and would be fully integrated with various on-going schemes on rural development.

2.3 During the period of training, a stipend upto Rs.100 per trainee per month will be provided. Besides, training expenses not exceeding Rs.100 per month per trainee can be incurred for meeting expenditure of honoraria, training course material and other institutional expenditure. These would be paid to the training institutions. All the trainees, whether in IRD or non-IRD areas are also entitled to financial assistance on the IRD pattern. This is the same as is available to small and marginal farmers and other target groups under the various special programmes. Broadly speaking, the assistance to small farmers is 25% of the total categories is 33-1/3%. The limit of subsidy which can be given to one individual is Rs.3,000. It is envisaged that the subsidy will be linked to a loan from commercial or cooperative banking institutions.

2.4 In a recent extension of the scheme, training through industrial and service units, master craftsmen, artisans and skilled workers has also been included as a mode of training both under TRYSEM and IRD. The idea is that the institutional mode of training alone would not suffice if the targets of imparting training and providing employment opportunities are to be fulfilled within the stipulated time. Under this component, a District Committee headed by the trainers who should have been practising their craft, trade or skill or running their units for more than 10 years. The number of trainees to be placed with an individual trainer will not normally exceed 3. The trainees will receive a stipend

upto Rs.100 per month, except when the training is undertaken in the village itself. In that case, the stipend may be limited to Rs.50 per month. A remuneration upto Rs.50/- per trainee per month would be paid to the trainers. The provisions of subsidy are the same as mentioned for the institutional trainees.

2.5 The brief description of the industries component of IRD as well as TRYSEM given above shows that there is an increasing emphasis on providing self-employment opportunities for people in the rural areas, especially for the rural youth. Further, it will also be noticed that the emphasis is on the industries and services sectors. Both the schemes are aimed at improving the lot of the weaker sections of rural society. In both the schemes, provision of institutional finance is an integral part of the package of inputs. It is, therefore, clear that the banking sector has a tremendous responsibility to discharge if the two schemes are to become successful. In this paper, we will consider various aspects of institutional finance requirements for the decentralised industrial sector, which mainly serves the weaker sections of rural society.

3. CREDIT GAP

3.1 A Working Group set up by the Planning Commission estimated that term loan requirements of small industries (excluding traditional and cottage industries) for 1977-78 would have been Rs.400 crores. Actual disbursement of term loan during that year amounted to Rs.150 crores, thus leaving a gap of Rs.250 crores to be met from non-institutional sources. As far as the short term credit requirements are concerned, these were estimated at Rs.3110 crores, against which the credit made available was Rs.1700 crores only.

3.2 For the traditional village and cottage industries, the Working Group estimated that the short-term credit requirements during 1977-78 were Rs.1400 crores against which the available partial data showed that an amount of about Rs.400 crores was made available to this sector through the combined efforts of various agencies like KVIC, cooperative banks, regional rural banks, commercial banks, Central and State Governments etc.

3.3 With regard to the period 1977-83, the group estimates a total credit requirements of Rs.8065 crores, the break-up of which was as under:

Rs. in crores

(A) SSI sector (including tiny sector)

i) term loans	2160
ii) working capital	2860

(B) Traditional sector

i) term loans	460
ii) working capital	2160

(C) Marketing agencies working capital

425

Grand Total	<u>8065</u>
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3.4 This estimate of Rs. 8065 crores can at best be taken to represent the outside limit of credit requirements, as many of the assumptions on which the estimate is based may not hold good fully.

4. FLOW OF INSTITUTIONAL CREDIT

4.1 The position in regard to the flow of institutional credit to small scale industries is summarised in the following table:

<u>INSTITUTIONS</u>	<u>Rs. in crores</u>
	<u>OUTSTANDINGS</u>
i) Scheduled Commercial banks	2156
ii) Cooperative banks	59
iii) regional rural banks	14
iv) state financial corporations	354
v) national small industries corporation (higher purchase scheme)	21
vi) state small scale industries development corporations (higher purchase scheme)	16
Total:	<u>2620</u>

The institution-wise position is as under:

5. RESERVE BANK OF INDIA

5.1 The Reserve Bank of India has stipulated that term loans to small scale units should not be charged more than 11% per annum, while working capital advances to small scale industries upto Rs.2 lakhs have been exempted from the stipulation governing the minimum lending of 12½%.

5.2 The provisions of the credit guarantee scheme have been liberalised from time to time. The guarantee covered in respect of loans upto Rs.25,000 to artisans and village and cottage industries has been raised from 75% to 90%. Further, guarantee claims for amounts upto Rs.25,000 are being settled on an automatic basis.

5.3 A number of Committees have been set up to ensure better and larger flow of bank credit to the small and decentralised sectors.

5.4 The highlights of an important RBI circular dated 12th December 1978 are as under:

a) It has estimated that the total credit requirements of an individual artisan or a village or cottage unit would not normally exceed Rs.25,000, inclusive of both equipment finance and working capital. Credit upto Rs.25,000 to this sub-sector should be sanctioned as a composite term loan for equipment finance or working capital or both, with repayment period of 7-10 years or even more, with an initial moratorium period of 12-18 months, both for interest and principal.

b) There should be no insistence for margin in this category and the banks, should not ask for any collateral security/guarantee.

c) The maximum rate of interest will be 9½ per annum in specified backward districts and 11% p.a. in other areas, irrespective of whether refinance is obtained or not.

d) In the case of term loans for the tiny sector, the ceiling of 11% will be applicable. In respect of credit limits for working capital for above Rs.25,000 but upto Rs.1 lakh, banks may charge interest at a rate not exceeding 12½.

e) For both the tiny and village and cottage industries, no penal interest should be charged.

f) The proposals upto Rs.1 lakh should be disposed of within a period of 30 days from the date of receipt of application.

g) All Branch Managers of Banks should be vested with discretionary powers to sanction proposals upto Rs.25,000 without reference to any higher authorities.

h) The appraisal of applications for advances between Rs.25,000 and Rs.1 lakh will be done simultaneously at the DICs the bank and the SFC.

i) The rejection of applications should be at a level higher than the Branch Managers in very instance.

j) Once a proposal has been submitted by the DIC, the bank should not reduce the limit without appraising the DIC of the reasons for reduced sanction.

6. INDUSTRIAL DEVELOPMENT BANK OF INDIA

6.1 The share of small scale industries in IDBI's total assistance sanctioned was around 40% in terms of number of applications sanctioned and around 18% in terms of amount during 1978-79.

6.2 From February, 1979, the IDBI has introduced a composite loan scheme, whereby composite term-loans for equipment finance and for working capital upto Rs.25,000 granted to artisans, village, cottage and tiny industries by the primary loaning agencies are eligible for refinance from IDB. The composite loans are covered under the automatic refinance scheme.

6.3 The IDBI is also sanctioning from 1978-79 separate limits to banks for exclusive use by the small scale industries under the bills re-discounting scheme for purchase of machinery on instalment-sale basis. As a result, small scale industrial units availed of the bills facilities to the extent of Rs.16.40 crores during 1978-79.

6.4 In March 1978, a small and village industries wing headed by an executive Director was set up. The IDBI has also set up recently a small and village industries credit committee.

6.5 In August 1979, the IDBI decided to grant assistance on a selective basis to promotional and market/input organisations for the decentralised sector to meet their term finance requirements for their own industrial activities, capital investments for setting up warehouses, marketing centres etc. and for margin for working capital.

7. COMMERCIAL BANKS

7.1 There are now nearly 30,000 branches of Commercial Banks. In June 1977, the distribution of commercial bank credit to small scale industries by population groups was as under:-

Population Group	(Rs. in crores)	
	Limit sanctioned	Balance outstanding
Rural	125.16 (6.0)	87.95 (6.0)
Semi-urban	454.14 (21.7)	304.78 (20.9)
Urban	701.45 (33.5)	493.15 (33.7)
Metropolitan	814.36 (38.8)	576.27 (39.4)
TOTAL:	2095.10 (100.00)	1462.15 (100.00)

It will be seen from the above table that small scale industries in rural areas have claimed only 6% of the total bank credit advances to the small scale industries sector.

7.2 At the end of March 1979, advances by the State Bank and its subsidiaries and 10 nationalised banks (which account for nearly 4/5th of the total credit by all scheduled commercial banks to small scale industries) to artisans, village and cottage industries, amounted to Rs.30.8 crores. The level of credit to the tiny sector was Rs.99.8 crores, thus making a total of Rs.130 crores which formed 8% of the total advances by these banks to the small industries sector.

7.3 Under the differential rate of interest scheme, the contribution of public sector banks to small industries at the end of March 1979 was around Rs.15 crores.

7.4 The State Bank of India has created an equity fund for small scale industrial units. The scheme is applicable only to new units and the total cost of project should be above Rs.25,000.

8. COOPERATIVE BANKS

8.1 The Reserve Bank of India recognised in 1963 22 broad groups and cottage and small scale industries in addition to cotton, woollen and silk handloom weaving and powerloom weaving industries eligible industries for reference accommodation by the RBI for refinancing their production and marketing activities. This refinance is provided at $2\frac{1}{2}\%$ below the bank rate to State Cooperative Banks for refinancing **industrial societies** and 3% below the bank rate for financing weavers and other rural artisans.

8.2 The amount of credit extended by cooperative banks other than urban cooperative banks to weavers and other industrial societies was Rs.38.6 crores at the end of June 1977. Of this, weavers' societies alone accounted for Rs.23.6 crores.

9. REGIONAL RURAL BANKS

9.1 There are 56 Regional Rural Banks having 1836 branches. At the end of March 1979, they had granted loans to rural artisans and other small borrowers to the extent of Rs.45 crores. Out of this, the finance granted to rural artisans is estimated to be about Rs.14 crores.

10. KHADI AND VILLAGE INDUSTRIES COMMISSION

The KVIC has been taking measures to obtain an increasing amount of institutional credit for its activities. They operate a comprehensive scheme of interest subsidy on loans raised from financial institutions. The scheme covers both capital expenditure and working capital. KVIC has been able to enter into cash credit arrangements **with banks for procurement of raw materials** to the extent of Rs.22 crores so far.

11. HANDLOOM BOARD

11.1 The quantum of finance made available by public sector banks to handloom weavers outside the cooperative fold amounted to Rs.12 crores at the end of 1978.

12. HANDICRAFTS BOARD

12.1 Over 90% of the credit requirements of the handicrafts industry are being met by non-institutional sources, the share of banks and cooperative banks being hardly 7%.

13. BRIEF CONCLUSIONS OF REVIEW

13.1 The review of the present situation made in the preceding para shows that although there has been a significant increase in the flow of institutional credit to small scale industries in the last 5 years or so, bulk of this credit has gone to units in metropolitan and urban areas and the share of the tiny and the decentralised sector is small. Further, the specialised boards and their count experts in the States have been depending heavily on Government's budgetary allocations and their links with the financial institutions and other promotional agencies are rather tenuous. There are other matters also which will become clearer in the next section.

14. SUGGESTIONS FOR ACTION

14.1 Opening of Bank Branches: Despite the large number of rural bank branches opened in recent years, it is not possible to say that the entire country has been covered. Banks generally insist that each branch will only have a jurisdiction of 16 k.m. around it. As a result, their spatial coverage is not total, especially in areas where population is sparsely distributed over a vast land mass. Further, even where branches exist, these are mostly one-man branches which succeed in mopping up the deposits and do not have the necessary machinery for processing and sanctioning of advances. The following steps, therefore, need to be taken:

a) The number of bank branches in the rural areas would have to be increased considerably. For this purpose, each lead bank should prepare a phased plan for coverage of the entire rural area in the next 3 years.

b) Till such time as enough number of branches are opened, the 16 k.m. rule should be modified so that no area of the country remains unserved by a bank branches.

c) There has to be sufficient staff in each branch if numerous proposals pertaining to the decentralised sector are to be processed. In case it is not possible to provide expertise for technical appraisal of such loan cases in each branch, the lead banks should provide expertise at least at block headquarters.

14.2 DELEGATIONS OF POWERS TO BRANCH MANAGERS

The Reserve Bank's directive dated 12.12.1978 is that all Bank Managers should be given the powers of sanctioning loan upto Rs.25,000. It is not known as to how many banks

have actually implemented this directive. Even where powers are delegated, experience shows that Bank Managers are reluctant to exercise these powers. There is need for a crash orientation programme for Branch Managers so that they appreciate Government's policies for rural industrialisation. They have also to be assured by higher management that the possibility of overdues in genuine cases of loaning would not endanger their career.

Branch Managers have to be trained suitably so as to bring about necessary attitudinal changes in them as also improve their professional competence. They should be motivated and encouraged to be increasingly innovative and constructive in responding to requests for assistance from the decentralised sector.

The guidelines under TRYSEM already indicate that Branch Managers should be involved right from the very inception of the programme. Thus, it is envisaged that Branch Managers would be involved even in the selection of beneficiaries. Later, they will have to give assistance in the formulation of bankable schemes by the trainees even at the stage when they are undergoing their training. The idea is that the applications for loans should be sanctioned before the training period is over. This sort of coordination is only possible if the grass-root representatives of financial institutions work in close association with the DICs, IRD agencies, BDOs and the Principals of Training Institutions.

14.3 RATE OF INTEREST AND OTHER LOAN CONDITIONS

The circular of 12/12/79 clearly states that there should be no insistence on margin for artisans, village and cottage industries. Banks have also been directed not to ask for any collateral security/guarantee. The rate of interest has been kept at 9½% for backward districts and 11% in other areas. Similarly, in tiny industries the maximum rate has been kept at 11% for term loan and 12½% for working capital. Here again it has to be ensured that the banks accept these conditions, issued suitable instructions to the Branch Managers and ensure that the instructions do not remain on paper.

14.4 FINANCING OF CORPORATE BODIES

The Working Group on Small Scale industries has recommended that one of the ways of bringing the artisans within the reach of the commercial banking system would be to organise them in corporate bodies such as registered associations etc. so that loans could be routed through these inter-mediaries. The loans to such associations should be treated as priority

sector advances. At present, only loans given directly to individual artisans and SSI units are classified as priority sector advances.

Commercial Bank could take upon themselves the function of financing primary cooperatives of handloom weavers, coir weavers etc. on the pattern of financing agricultural credit societies.

14.5 DIFFERENTIAL RATE OF INTEREST SCHEME

The operation of this scheme has created several problems in the field as the number of persons eligible is so large that the funds ear-marked by the banks for this scheme hardly touch the fringe of the problem. Recently, the proportion of these funds compared to total advances has been raised from 0.5% to 1%. However, it may be necessary to take the following further steps:

i) The total amount of bank credit available under this scheme should be **raised** at least to 5% of the total bank advances.

ii) There is a considerable body of opinion that a similar scheme should be operated by other institutional finance agencies like the regional rural banks and the cooperative banks. Suitable methods have to be devised to make this possible.

14.6 MONITORING OF ADVANCES TO THE DECENTRALISED SECTOR

In case the RBI directives on treating the tiny and decentralised industries as a priority sector are to be meaningful, it will be necessary to evolve a suitable monitoring system. It is, therefore, suggested that advances to the tiny and decentralised sector industries located in rural areas should be separately monitored as an integral part of the general monitoring being done by the RBI.

14.7 INFORMATION SYSTEM

The information system in the financial institutions needs to be vastly improved so that the instructions issued by the head office to branches are effectively implemented at the branch level and there is adequate and quick feed-back from the branches to the head office. There should be effective coordination of the efforts of Central and State Governments, The development agencies established by them and the financial institutions.

14.8 NEED FOR AN APEX FINANCIAL INSTITUTION

For quite some time, it has been felt that there should be a separate financial institution for the tiny and decentralised sectors, as the IDBI and ARDC are not capable of giving sufficient attention to these sectors. An Expert Group under the chairmanship of Shri W.S. Tambe, Executive Director, RBI has recently submitted its report. This is still under examination. It is, however, felt that creation of such a separate institution is necessary in order to provide appropriate finance and refinance facilities to all the institutions engaged in financing, promoting or developing industries in the tiny and decentralised sector.

15. CONCLUSION.

It will be gathered from the foregoing discussion that the institutional finance requirements for rural industrialisation are gigantic and the present facilities do not compare favourably with the actual requirements. The situation calls for a re-appraisal of the present functioning of institutional financing agencies so that the entire system is geared to the task of providing adequate finance for speedy implementation of the rural industrialisation programme. This will involve structural institutional and attitudinal changes on the part of the concerned agencies and for this speedy action is imperative.

SOURCE:- Paper presented at the Seminar on Loan Assistance to Weaker Sections at the College of Agricultural Banking, Reserve Bank of India, Pune (November 5-7, 1979).

The Process of Rural Development

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I would like to define the process of rural development in broad terms. It is an inclusive term that involves the setting up of objectives, planning, program formulation, implementation and evaluation. I would like to look at the process in its totality.

The commitment to rural development has been great, but at the same time there has been concern over the fact that rural development has not gone on as well as was expected. I would like to suggest some reasons as to why the rate of change in the rural areas has been slow. My hypothesis is simple. There are far too many inconsistencies in the process so that it has been difficult to achieve the desired goals. The need is to look at these inconsistencies in all the stages of the process that have been mentioned.

The process starts with setting up of objectives. Certain objectives have been defined. To what extent are these objectives compatible? Productivity is one of the major objectives in the present planning. The overall objectives is defined as growth with distributive justice. Where is the emphasis going to be - on productivity or is it going to be on distributive justice? There is no getting away from the fact that there is a conflict in these two aspects of the objectives.

Even in the term community development there is an element of inconsistency. Is the emphasis going to be on community or is it going to be on development? If it is community then one is interested in harmonious relationships - having a sense of community. On the other hand development tends to be disharmonious. Development would mean a certain amount of dislocation, disorganization and disruption. The question that is being raised is to what extent are these objectives compatible. The other objectives that have been defined are egalitarian society and self-reliance.

Do all these objectives put together provide a consistent goal towards which one can strive? Without this consistency, is it possible to expect a rapid rate of change?

Even if the objectives were accepted as they are the question would arise as to what extent they have been made operational and whether they are consistent with the said objectives. Self-reliance has been indicated as one of the objectives. If one looks at the plan document a question will arise as to whether the programmes are such as to develop self-reliance. Quite a few of the programmes are such that they would only increase the dependency of the rural people on the government.

There is a program of integrated rural development. In the document of the department of rural reconstruction, integrated rural development has been listed as a program by itself. This raises the question as to what is meant by "integrated". One would assume that integrated rural development would include the totality of programmes dealing with the various problems faced by the society in rural areas. The question does come up as to whether the programs that are being carried on are such as to help achieve the objectives.

The next point one can raise is whether the objectives set are related to the situation in the community and to the rural society. What is the point of view one has with regard to community when one talks about community development. Is it the assumption that this is a community in a rural area?

In the early days Charles Metcalf said that the villages are harmonious types of organizations. Marx also defines a village as harmonious and almost a commune. On the other hand, Oscar Lewis said that the villages are full of factions. Many of the present studies indicate that there is conflict - factions and struggle for power in the villages. There is stratification which is rigid and does not allow for a sense of community. To what extent are these factors taken into consideration, both in setting up the objectives and in implementing the program? What is being suggested is that the objectives are often set without real understanding of the situation. The assumption made in setting up the objectives may often be inconsistent with social reality.

The relationship between resources and programs has also to be considered. The resources, with particular reference to rural development, are - man, land, animal, climate, water. These have to be taken into consideration in planning and in setting up targets. Targets are often set which are usually beyond the available resources. Very often land distribution has been suggested as a way of improving the economic conditions of the rural people. As it is, a fairly high percentage of land that is being cultivated is below the marginal level. Also per capita land holding is below the required level. Moreover, the question of the impact on productivity has also to be considered.

The financial resources can also be a constraint. About one and a half lakh villages have been listed as problem villages with regard to the availability of drinking water. Often promises are made that all villages will be provided with drinking water within a year or so. If one looks at this promise from the available resources it is certainly inconsistent. In a case study of Rajasthan it was found that it would cost about Rs. 200 crores to provide drinking water to the number of villages that were listed as "problem villages". The allocation of budget is Rs. 11 crores per year. On this basis it will take nearly 20 years to provide drinking water to all the villages.

Further, the availability of materials (pipes, pump heads, rigs etc.) have also to be taken into consideration. Even if the funds were available the capacity of the organization to utilize the funds is limited. There are not enough personnel and the overall capacity organization is limited. One might even raise the question here that whether, under the circumstances, giving up the idea of deepening existing wells and protected wells was wise. The program seems to be completely disbanded in favour of hand pumps.

The problem that is being raised is, that with so much inconsistency is it possible to develop the rural people? The situation is confusing. Promises are made, aspirations are raised but because of the inconsistencies one is not able to go too far in achieving the objectives. It also seems that there is no consistency in the rural development program taken as a whole.

In the earlier days "community" development was suggested as the major objective in rural development. Later agricultural development became the program in rural development. The VLM (village level worker) was expected to spend all his time for agricultural development. And this was done in the name of community development. Today there are many programs like SFDA, MFAL, IADP and DPAP. To what extent is there coordination and integration among these programs? Each of these programs has its own organizational structures, and very often the block development offices is not sure exactly what his role is. Even in the program itself there seem to be problems.

What is the approach in planning? It is, by and large, a sectoral approach and it does not lead to consistency. It is a collection of a number of programs, and they are put together and defined as a plan. There can be inconsistencies in the different parts of the plan. Often planning at a grassroots level is mentioned. Is this really meaningful? To what extent is there any participation of the village, block or district organizations in the planning process? It is, by and large, a centralized plan.

The implementation process also has its own drawbacks. The Indian administrative structure conforms to the Weberian model. This model was developed in a laissez-faire condition with the major function of maintaining the status quo. Consequently innovative behavior is difficult. The system as such does not allow for innovation, for such a behavior could be inconsistent with the rest of the bureaucratic process. There is often talk of committed bureaucracy. The bureaucratic structure and functioning does not allow for commitment. Working for rural development requires enthusiasm and zeal - almost missionary zeal - to help people develop. The goals are set, programs are designed, but the organization for implementation is not consistent.

People's participation and decentralization have been considered as means of achieving rural development. Decentralization has not been very effective. A large number of functions are prescribed for these organizations. But the resources provided are far from adequate. There has been no real delegation of power to the decentralized organizations - panchayati raj institutions. The administrative structure is very strong and hence the talk about participation is not particularly meaningful in the

actual implementation of the program. There is, therefore, no compatibility between what is suggested by way of people's participation, decentralization and delegation of power and the actual practice. Only in Maharashtra and Gujarat has there been a better performance of the decentralized organizations. This is because there has been greater delegation of power and resources to the zila parishads.

The Government of India has initiated so many programs that for proper implementation there would need to be extensive intervention by the government. The other possibilities are limited intervention or a laissez-faire approach. The present policy tends to be limited intervention. Such an approach is not likely to achieve the goals as the programs are such that only the government machinery can implement them. There is, therefore, inconsistency in terms of the extent of intervention that is required and what actually occurs.

There is ambivalence regarding the content of centralization and decentralization. Planning calls for a centralized approach. On the other hand there is an emotional commitment to decentralization. The problems of decentralization have already been discussed.

Even with regard to technology there is confusion. On the one hand there is talk about intermediate or appropriate technology. On the other hand the experiment in Karimnagar used extremely sophisticated technology. This has been held up sometimes as a model. There seems to be confusion as to the type of technology that should be introduced in the process of rural development. There is a need for hard decision as to what technology should be used for increasing production and improving the quality of life of people in the rural areas.

Why is it that there is ambivalence and inconsistency in the approach? Probably because the cost of consistency is quite high. The Gandhian approach to rural development is probably one of the most consistent. However, it starts with the assumption of limited wants. The idea of austerity is crucial to the Gandhian concept of rural development. The idea of the village republic, where the village people themselves could solve their problems and provide for their needs, is based on the assumption of limited wants. The Indian Government has not accepted the

Gandhian model in its totality. Lip service may be paid to basic education. At best what is done is to introduce lessons in crafts. The whole concept of basic education and philosophy is very different. While one cannot object to the initiation of antodaya program yet how does one reconcile it with the concept of sarvodaya. Hence, while reference is made to the Gandhian ideas and a few elements of his program are introduced in the rural development, yet they cannot be meaningful because the Gandhian approach has to be seen in totality. Moreover, unless the workers are committed to the Gandhian philosophy the approach cannot be meaningful.

On the one hand, while the Gandhian approach taken in its totality is consistent, on the other, one can also say that the Marxian approach is also consistent. The cost is high again. If one were to take it to its logical conclusion, one would have to accept revolution as a possibility. Without a revolution the alienation between the owners of the means of production and the workers is difficult to overcome.

The Indian village service, which was directed by Dr. W.H. Wiser, felt that the approach should be to help people develop so that they could solve their own problems. The function of the workers in the village was to enable villagers to help themselves. To accomplish this well educated people were appointed, but only for a period of three to four years. The idea was that the worker helping the people to solve their problems should work himself out of the job within that time. Being consistent requires hard decisions as well as commitment. Without such an approach it would be difficult to bring about development of the rural people.

Our evaluation process is also problematic. For example, the banks evaluate their performance on the basis of the extent of recovery of loans. This would seem to be inconsistent with rural development as the recovery of loans does not necessarily mean rural development. The program evaluation organization also evaluates only the intermediate goals but not the ultimate objectives. They study the number of people who have accepted high yielding varieties of seeds. Such an approach does not enable one to see whether there is any progress towards the ultimate goals of rural development - people solving their own problems, becoming self-reliant.

There seems to be inconsistency in all sub-processes of rural development - from the setting of objectives, planning, implementation and even evaluation. It has already been said that being consistent is extremely difficult. To be consistent in a developing society would mean changing of social relations and social structures. However, can development be brought about without the assistance of those who have the means to invest? Can there be consistency at a macro level given the diversity of the country? The approach in planning has tended to be schematic, particularly in rural development, and such an approach has not been very functional. This raises the question as to whether programs have to be at micro level to be consistent. Is the power structure of a developing society conducive to participatory democracy is another question.

Without consistency is it possible to ensure that the benefits are going to the people for whom the programs have been planned? In fact Gunnar Myrdal raises the question when he talks about a soft country and a hard country. Can a soft country be consistent in its approach to the developing process?

Recovery of loans and overdues
- Supervision, monitoring and
follow-up of credit provided for
agriculture

Overdues a critical factor

Co-operative credit structure has made impressive strides over the last two decades since the publication of the All India Rural Credit Survey Committee Report in 1954. The short-term and medium-term agricultural loans advanced by co-operatives increased from Rs.49.62 crores during 1955-56 to Rs.1211.07 crores during 1976-77. The outstandings under the investment credit provided by the land development banking structure increased from Rs.23.59 crores to Rs.1193.34 crores during the same period. In terms of the Rural Debt and Investment Surveys conducted by Reserve Bank the proportion of agricultural credit provided by the co-operative credit structure to the total rural indebtedness steeply increased from 3.7% in 1951-2 to 11.4% in 1961-2 and further to 22% in 1971-2. This proportion is estimated to have reached 40% by the end of 1976-7. The progress of co-operative credit, though impressive in itself, however, failed to keep pace with the ever expanding demands for agricultural credit generated by the massive programmes of agricultural production taken up during the successive Five Year Plans. The multi-agency approach was, therefore, required to be adopted by inducting commercial banks/ regional rural banks for dispensing agricultural credit and bringing up the credit gaps. A number of factors led to the retardation in the growth of co-operative credit such as structural defects, financial weaknesses, managerial inefficiencies, etc. but the single major factor largely responsible for the session of the monopoly enjoyed by co-operatives for over 60 years as the sole purveyors of agricultural credit, was the ever-growing incidence of overdues.

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Reserve Bank of India, Poona.

2. Overdues inhibit the growth of institutional credit for agriculture not only from co-operatives but even from other agencies such as commercial banks, regional rural banks, Government in manifold ways. It is an accepted principle of sound banking that defaulters should not be provided fresh finance not only by the co-operative credit structure i.e. the credit agency to which he has defaulted but also by the other credit agencies. Thus, all the defaulters, and even their sureties, become ineligible for fresh finance from any institutional agency. Similarly, the incidence of high overdues coupled with weak resource base of the societies leads to percolation of the overdues to the central co-operative banks thereby weakening the financial position of both the societies and the banks rendering them ineligible for credit limits from Reserve Bank of India. When societies cease to function as effective channels of credit even the debt-free members are starved of production finance thereby affecting the agricultural production programmes.

Rising trend

3. The overdues, which weaken the co-operative credit structure and inhibit the flow of credit have, however, been progressively rising year after year, at all levels of the co-operative credit structure as may be seen from the following particulars:

<u>PACS</u>	<u>1960-61</u>	<u>1970-71</u>	<u>1976-77</u>
Short-term and medium-term agricultural loans advanced	202.75	577.82	1210.65
Overdues	44.30	322.36	682.82
% of overdues to demand	20%	39%	41%
<u>R.L.D.B.S</u>			
Loans outstanding	24.66	448.27	666.27
Overdues	0.64	17.47	51.68
% of overdues to demand	3%	30%	38%

(* percentage to outstandings)

The above data reveal that while the loans advanced by the primary agricultural credit societies increased 6 times during the period 1960-61 to 1976-77, the overdues rose by more than 15 times. The long-term loans outstanding increased by 27 times whereas overdues have increased by nearly 80 times.

Production-oriented system of lending

4. The large-scale expansion of co-operative credit in the last 2½ decades has been the result of adoption of the progressive policies, the most important among them being the production-oriented system of lending for agriculture. Under this system, credit is provided, not with reference to the value of security but for sustaining a productive effort which is expected to generate the requisite repaying capacity for liquidating the institutional finance. Thus, loans for seasonal agricultural operations or for investment in land are issued for the purpose of stepping up the farm output. The application of inputs in land with the help of credit brings about increased output on the borrower's piece of land and it is from the value of this incremental output that the borrower is expected to meet his loan liability. The agricultural loans are therefore expected to be self-liquidating in nature.

Supervised credit

5. The institutional agencies no doubt obtain tangible security in the form of charge on land or even mortgage of land in the case of investment credit but for obvious reasons a credit agency can resort to sale of assets mortgaged to it or otherwise kept as security, for recovery of its dues only in exceptional cases. Further, in view of the inherent difficulties in the acquisition/auction of land, time consuming procedures involved, etc. repayment of credit has to be expected out of the anticipated produce which, for all practical purposes, constitutes the primary security for the lending agency. So long as credit is utilised for the purposes of agricultural operations or for investments in land, for which it was intended, and has, in fact, led to anticipated crop yields, the borrower should ordinarily be in a position to repay, in time, the dues to the credit agency. However, on account of the illiteracy amongst the agriculturists coupled with their abject poverty and large propensity to spend disproportionately on immediate consumption needs, infrastructural inadequacies, and several other factors, it has become necessary for the credit agency to undertake close follow-up of credit and ensure its end-use and recovery. This implies intimate knowledge of and close contact with the borrowers and constant supervision

over their farm operations right from preparation of the farm plans, tilling and sowing of land, application of requisite inputs, harvesting, marketing, processing wherever necessary, and ultimately recovery of credit. Agricultural credit, to be effective, has to be a highly supervised form of credit.

Production credit -
Scales of finance ✓

6. The main requirements of the crop loan system are that the amount of loan provided to the cultivator should be adequate to meet all his production needs, disbursed in time and as far as possible in the form of inputs and recovered immediately after the marketing season of crops. An important aspect of the crop loan system is the provision of loans on the basis of scales of finance fixed, crop-wise, on a per acre basis, in the field workers' conference every year. Very often these scales are either too high or too low and are far from realistic. When they are based on the optimal doses of different inputs which are considered ideal by the Agriculture Department, they tend to be on a too high side. If the cultivators are not accustomed to the use of such large doses of inputs and sophisticated technology of cultivation which follows them, there is a danger of overfinancing. The excess loan amount, being diverted for non-productive purposes, does not generate the repaying capacity and, therefore, becomes difficult to recover. On the other hand, the scales of finance are sometimes fixed, not strictly with reference to the cost of cultivation and the requisite doses of inputs, but with reference to the financial position of the central co-operative bank functioning in the district and its ability to provide credit. Scales of finance, determined on this basis, tend to be considerably low in cases where the central co-operative banks are financially weak and are inadequate to meet the cost of cultivation. The borrowers are, therefore, compelled to take recourse to the money-lenders who lend at exorbitant rates of interest and other stringent terms. While such borrowings from different sources are often beyond their repaying capacity, the cultivators are also inclined to give priority for clearing off such non-institutional borrowings as they carry higher rates of interest and offer lower priority to the repayment of co-operative loans which are likely to remain overdue.

Timely credit

7. Timely disbursement of loans is as important, if not more, as the adequacy of credit. Various seasonal agricultural operations have a rigid time schedule, fixed with

reference to the onset of the rains and other climatic conditions. Credit agency has, therefore, to strictly adhere to the schedule of preparation of normal credit limit statements, their scrutiny, sanction and disbursement in time. Credit agency must ensure about the availability of all required inputs, of right quality, for requisite quantities at reasonable prices and at right time and ensure about the existence and proper functioning of all the infrastructural arrangements for their storage and distribution. Delay in the disbursement of institutional credit may, therefore, force the borrower into the clutches of money lenders if he has to complete his operations on time. Credit provided, out of season, by institutional agencies would be diverted for other consumption purposes for which the borrowers generally have an inexhaustible propensity and eventually end up as overdues.

Verification of land holdings

8. While sanctioning loans to members it is necessary to verify from the land registers maintained by the societies and the village records that fictitious/ghost acreages are not included by the borrowers in their normal credit limit statements. Similarly care has to be taken that two or more members are not applying for loan against the same piece of land. Societies can also check up whether the members applying for loans for irrigated crops are actually having the necessary irrigation facilities.

Verification of disbursement

9. Equally important is the need to verify that the loan amounts disbursed by the credit agency have actually reached the borrower in full. While the credit agencies should adopt a fool-proof procedure for disbursement of the cash component, such as disbursement by cheque, the close supervision over disbursement is equally essential. Verification should not end with mere check over the documents such as disbursement statements, signatures/thumb impressions of the borrowers, etc. The supervisors have to contact a few borrowers and personally ensure that the loan amounts have actually reached them in full. One cannot expect repayment of a loan unless it has reached the borrower in the first instance.

10. The system also envisages disbursement of loans for inputs such as seeds, fertilisers, pesticides, etc. being supplied in 'kind'. Failure to disburse loans in 'kind' may lead to their diversion for other purposes rather than

purchase of inputs, thus upsetting the entire plan of cultivation, output and repaying capacity. The recovery prospects of such loans are generally bleak.

Verification of crops

11. Since production loans are given with reference to acreage under various crops, an important aspect of the credit supervision is to ensure that the borrower has adopted the same cropping pattern as indicated in his normal credit limit statement and acreages under various crops conform to the crop loans disbursed to him. Such verification is necessary to curb the tendency on the part of the borrowers to show inflated acreages under cash crops carrying higher scales of finance, availing of larger finance than their eligibility on the basis of their actual cropping pattern and utilising it for consumption purposes.

Linking of credit with marketing

12. Forging an effective link between credit and marketing is an integral, though virtually neglected, aspect of the crop loan system; as recovery of credit has to be made through the sale proceeds of the crops. In cases where production crops, it is the duty of the credit agency to get possession of the crops as soon as they are harvested, give produce loans to the member to enable him to meet his immediate cash needs and help the borrower in marketing the produce preferably through marketing co-operatives with a view to recovering the production loans from the sale proceeds. Even in other cases, irrespective of the nature of security obtained for crop loans, this procedure has to be adopted in all cases if loans are to be recovered through sale of crops. Relative neglect of co-operative marketing and failure to build up an organic link between credit and marketing has been an important lacuna in the adoption of supervised credit, leading to high incidence of overdues.

Investment credit - Credit appraisal

13. Unless proper procedures are evolved for sanction of investment credit and adequate supervision exercised over its end-use, these dues are likely to become irrecoverable. The sanction of loans for investments in land should invariably be preceded by an assessment of the technical feasibility and economic viability of the proposal and only such proposals which strictly conform to these tests should receive institutional credit support. For instance, the proposals for

minor irrigation such as sinking of wells, tubewells, installation of pumpsets should be adequately supported by necessary groundwater potential; horse power of a pumpset related to the depth of the water table and acreages it is expected to irrigate, installation of electric pumpsets and installation of necessary powerlines, etc. The investment for tractor, power tiller and such other agricultural machinery is often undertaken as a matter of status symbol and is not necessarily supported by adequate acreage under cultivation of the borrower or at least potential demand for hiring the tractor, thus making the investment infructuous and repayment of the loan doubtful.

14. Any manipulation of accessories in a composite loan proposal leads to either under-financing or over-financing both leading to overdues. Unless the horse power, make, quality etc. are given due attention there would be frequent breakdowns and repairs endangering the production programme and rendering the maintenance of the asset uneconomic. Despite implementation of the production oriented system, quantum of loans are often confined to the value of the security rather than the incremental value of output an asset is expected to generate, leading to under-financing and compelling the borrower to borrow from other agencies. It has also to be ensured whether the asset would generate the necessary incremental value to liquidate both the principal amount and interest thereon well within the useful life of the asset.

Supervision over disbursement

15. Effective procedures and adequate supervision over disbursement of credit is very necessary for ensuring proper utilisation of credit. Loans disbursed in cash tend to be misutilised. Loans for agricultural machinery etc. should, therefore, be disbursed only to the suppliers directly and in the case of land improvement proposals to the contractors undertaking the work. There is also need for seasonality in disbursement. Disbursement for digging of wells in rainy season when investment is impossible may lead to misutilisation. Loans for digging of wells etc. are to be given only in instalments and subsequent instalments released only after proper verification of utilisation of the earlier instalments.

Follow-up of credit

16. The follow-up of the investment credit is often neglected. The credit agency has to ensure that the borrower has actually switched over to the improved

cropping pattern for utilising the investment to the optimum level. This is necessary because recovery of investment credit is expected out of the incremental income accruing to the borrower after use of the investment. In this context, effective supervision over the activities of the borrower assumes all the more importance.

Local supervision

17. It has since been accepted by all concerned that supervision and follow-up of credit be appropriately left to the credit agencies rather than to the departmental authorities. However, it is often assumed that the supervision is the exclusive responsibility of the central co-operative bank and the vital role assigned to the village level societies therein is lost sight of. The essential aspects of the credit disbursal such as verification of land holding of the individual borrower, cropping pattern adopted by him, proper disbursement of loan at the village level are matters requiring intimate knowledge of the borrower and close contact with him on day-to-day basis. It is virtually impossible for an isolated supervisor of central bank incharge of as many as 10 societies to verify these details in respect of thousands of borrowers. The membership and democratic management of societies have an implicit role in exercising mutual supervision over each other and they are expected to fulfil it if the proper functioning of the credit structure is to be ensured.

Larger perspectives

18. Supervision and follow-up of credit should not be confined merely to the end-use and recovery of credit. The bank credit moving alternative uses has to be channelised for maintaining the productivity of the various sectors of the economy. It would, therefore, be pertinent to examine whether increase in agricultural credit-production as well as investment - has in fact led to increase in overall agricultural production over a period of time, after making allowance for seasonal fluctuations due to natural calamities, etc.

Supervised credit and overdues

19. Supervision and follow-up of credit is no doubt an integral part of the production-oriented system of lending but this in itself may not necessarily bring over effective recovery of credit. Recovery of agricultural dues is subject to several other factors such as incidence of natural calamities, politicalisation of co-operatives, governmental policies leading to creation or otherwise of necessary climate for recovery, etc. One cannot also belittle the importance of the basic factor viz. the character of the borrowers themselves who quite often wilfully default in the repayment of their agricultural dues.

Role of District Industries Centres
in rural industrial development-
Assistance for establishing tiny
sector and rural artisans activities

Rural industrial development has been given a special priority in the Government's industrial policy announced in December, 1977 and in the draft Five Year Plan 1978-83. This emphasis primarily the draft from the need to increase non-agricultural employment opportunities in the rural areas. As the current plan has noted, while there has been a fairly rapid growth in the non-agricultural sectors in the last 25 years of planned development, there has been no noticeable impact on the distribution of the work force. The share of mining and manufacturing had remained around 9-10% and the share of tertiary sectors around 16-18%, for the last several decades. Thus, the growth of these sectors has not resulted in the absorption of an increased proportion of the labour force. The annual average increase in the number of persons employed in the small-scale industrial sector (comprising both registered and unregistered units) was of the order of around 0.5 million during the last few years. As against this, in the plan period 1978-83 it is proposed to create additional employment opportunities in the decentralised segment alone of the small-scale sector (i.e. village and cottage industries almost invariably using manual production techniques with very little use of mechanical energy) to the extent of 10 million persons. 'Tiny' modern small-scale industries (involving investment in plant and machinery to the extent of Rs. 1 lakh) are also proposed to be set up in rural and semi-urban areas (in towns and villages with population of less than 50,000) and provide employment for a further 1-1.5 million persons. In these five years, the employment in such activities is expected to increase from around 12 million in 1977-78 to around 24 million in 1982-83, i.e. a doubling of the employment opportunities. These figures are indicators of the magnitude of the effort being attempted.

By Shri W.S. Tambe, Executive Director
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2. One of the major steps taken to implement the new policy is the setting up of District Industries Centres (DICs) to cover all the districts of the country in a phased manner to provide all the requirements of small and village industries.

3. The DIC programme has been formulated so as to ensure promotion of small and village and cottage industries and to provide all services and support to the decentralised industrial sector under a single roof at pre-investment, investment and post-investment stages. The DICs are also expected to undertake economic investigation of the potential for development of the district, including its resources, raw materials, supply of machinery and equipment, effective arrangements for credit facilities, marketing and quality control, research extension and entrepreneurial training. Each DIC is to be manned by a General Manager assisted by seven Functional Managers to provide assistance in disciplines, such as, economic investigation, machinery and equipment research, extension and training, raw materials, credit, marketing and cottage industries. The Manager (Credit) is to be in touch with the lead bank of the district and he would maintain a close liaison between banking network and the DICs. The entire programme which was launched in May 1978 is under the administrative control of the State Director of Industries and monitored by the Development Commissioner (Small-scale Industries), / DC (SSI) / at the national level.

4. With the primary objective of making the DICs as the main catalyst for the development of small and cottage industries at the district level and assisting the entrepreneurs under one roof, the need for proper linkage with various developmental agencies/institutions at Central and State-levels was realised. The national organisations like Khadi & Village Industries Commission, Handloom Board, Handicrafts, Boards, etc. are extensively involved in the programme of effecting decentralised industrial sector. Instructions have been issued that wherever these organisations have their own specific programmes, there should be a close meshing of the DICs with such programmes so that there is no duplication of effort. DICs are expected to supplement their efforts by initiating similar programme in other areas. DICs are also being utilised for developing suitable linkages of the programmes of Khadi & Village Industries Commission for various village industries with institutions like Small Industries Development Organisation (SIDO) in ensuring expeditious provision of assistance. The implementation of various special employment oriented programmes launched by the Commission at the district or sub-district levels is linked with DICs. With a view to having close co-ordination with DICs, the All India Handicrafts Board has issued instructions to field.

institutions to utilise DIC machinery as also to advise DICs regarding introduction of handi-craft-oriented programmes, wherever these have not been introduced by them so far by providing credit facilities to handicraft artisans. Action plans are prepared by the DICs for implementation of the industrial promotional efforts in a systematic manner. These plans are to concentrate on demands, skills and available resources of the district concerned and also to provide details of programme block-wise and bring out financial, employment and production potentials separately for artisans-based activities, tiny and small-scale units. These would also provide estimates of the quantum of different inputs required and the organisational support needed therefore from various concerned institutions such as commercial banks, SFCs, State Industrial Development Corporation, etc.

5. In order to have linkage of Small Industry Development Organisation (SIDO) with DICs, a Task Force was constituted by the DC(SSI). Based on its recommendations, SIDO staff is being decentralised and posted in groups at various locations on the SIDO field set up or at the Divisional Headquarters of the State so as to ensure effective linkage of SIDO with DICs. Besides, various SIDO officers have been nominated to specifically look after each of the DICs. In order to inter-face the DIC programme with Integrated Rural Development Programme (IRDP) of the Ministry of Agriculture, instructions have been issued to the state Governments to draw a detailed programme of inter-action between the DICs and the Rural Development Blocks. Guidelines have also been issued for assistance to artisans under the IRDP which, *inter alia*, envisage that assistance to an artisan family as a unit would be available for purchase of tools and equipment, provision of workshop and margin money, raising working capital, subject to a limit of Rs. 1500/- per family by way of subsidy but of the IRD funds etc.

6. The need for providing marketing assistance to small and cottage industrial units for ensuring their successful operation has also been recognised over a period of time. One of the steps taken in this direction is establishment of Trade Centres at the State level and provision of mini-trade centres at the DIC level. Another step taken pertains to the formulation of a scheme for establishment of rural marketing and service centres and arranging their operation through close co-ordination with DIC SET up. Under the integrated Rural Development Programme, a provision has been made for the activities providing, marketing and servicing assistance to the rural artisans.

The SIDO field set-up has also been geared up for extending marketing intelligence to the DICs for dissemination to the units in the decentralised industrial sector. Rural marketing and service centres are being set up on a pilot basis in a few blocks after having made a survey of their requirements of different types of industries/artisans, the facilities already available at various points through different organisations and having identified the gaps required to be filled in. The State Governments have been reviewing their policies in regard to provision of additional marketing facilities to small and cottage units. Since every district in the country will ultimately be covered by a DIC, the DIC will be the focal point of linkage between the IRD blocks and the various developmental agencies in the decentralised sector. It has been stressed on the Governments concerned that with the setting up of DICs, the emphasis on the implementation of RIP and RAP programmes for the benefit of rural areas should be further strengthened.

7. Such a large programme of rural industrial development can not, however, be attempted without adequate availability of credit from institutional sources. A Working Group was thereafter set up by the Government of India in 1978 for evolving specific measures for expanding bank credit to small-scale and cottage industries, artisans, etc. With special reference to DICs. It noted that although there has been considerable increase in the flow of institutional finance to the small scale sector, the orientation has been mainly been, so far as term lending institutions and commercial banks are concerned, to the modern small scale industrial units in the urban and semi-urban areas and in the case of co-operatives, principally towards the handloom industry. Having regard to the new industrial policy, the Group, therefore, made its recommendations for channelling institutional credit on an increasing scale to the 'tiny' modern small scale industries and the village household industries which are planned to be developed in the rural areas. It has recognised that the large employment potential can be realised only if several organisational, managerial, financial, technical and marketing problems of this sector are resolved in an integrated manner. The recommendations of the Group have been accepted by Government.

8. Pursuant to its recommendations, detailed instructions/guidelines to commercial banks were issued by the Reserve Bank in December 1978. These guidelines mainly relate to grant of composite term loans upto Rs. 25,000 to an individual artisan or a village or cottage

industrial unit for equipment finance or working capital or both, with repayment period of 7 to 10 years or even more with an initial moratorium period of 12 to 18 months for interest and principal, non-insistence on margin, collateral security/guarantee and stipulation of maximum rate of interest at 9% in backward districts and 11% in other areas. In regard to institutional finance for the 'tiny' sector, a maximum ceiling of 12½% has been prescribed for working capital limits upto Rs. 1 lakh (13½% for small banks). In respect of loans and advances to both these sectors, banks have been advised not to charge penal interest. They have also been advised to ensure that all proposals upto Rs. 1 lakh are disposed of within a period of 30 days from the date of receipt of the application. Necessary follow-up action in regard to other important recommendations, such as, extension of refinance under the Industrial Development Bank of India Automatic Refinance Scheme, enhancement of guarantee cover in respect of loans to village and cottage industries upto 90% and automatic payment of claims upto Rs. 25,000/- has also been taken.

9. Since the objective of setting up of the DICs is to decentralise the decision-making processes at the district level specially in regard to the 'tiny' sector, the RBI guidelines, inter alia, envisage that the decisions in respect of these advances should also be at the district level at least upto Rs. 25,000/- and that all branch managers of banks should be vested with discretionary powers to sanction proposals upto that limit. In respect of advances above Rs. 25,000/- and upto Rs. 1 lakh, in order to ensure that the appraisal at both the DIC and the credit institution is taken up simultaneously, the DIC would forward a copy each of the application (including the interview form prescribed by the Puri Committee) to the bank and to SFC (where necessary). Further, the Manager (Credit) will also have discussions with the branch manager of the bank and the SFC concerned, where possible, during the appraisal stage so that their points also can be taken care of at the time of first appraisal itself. The DIC, while forwarding the appraisal will make available the inputs of the different functional managers, like Raw Material, Technical and Marketing and not merely that of the Manager (Credit) so as to avoid the necessity of the bank referring it to SISI or technical consultancy organisation or any outside consultants. The credit institutions have also been advised that if any proposal is found to be not acceptable by them, it should be returned to the DICs with specific reasons for non-acceptance so that the

DICs would then be expected to rectify the defects or deficiencies so as to make it eligible and acceptable. It has further been impressed upon the banks that once a proper appraisal has been submitted by the DIC for sanction, banks should not reduce the limit without appraising the DIC of the reasons for reduced sanction.

10. An apprehension is expressed in some quarters regarding the effective performance of DICs in the absence of any authority having been vested in them to sanction loans and advances to entrepreneurs under the programme. The Working Group had also considered the issue and observed that the function of the Managers (Credit) of DICs was to provide all guidance, assistance and support required by the entrepreneurs to obtain the right type of institutional credit in right quantities and in right time as also to ensure smooth flow of credit to all viable schemes in the sector in the district by keeping close liaison with all banks/financial institutions of the district. Having regard to the nature of his role and function, it is felt appropriate that the Manager (Credit) will only recommend the credit proposals after due appraisal, to the concerned credit institution and that taking into account the concept of accountability of the bank officials, he should not have any sanctioning authority or powers as he would not be able to take up the work or responsibility of recovery of such loans. It may, however, be appreciated that Manager (Credit) being an experienced officer, would be forwarding the proposals after due appraisal on the lines followed by banks and it is expected that his appraisal would be, in most cases, adequate, the data furnished by him would form the basis for further action to be taken and the entrepreneur would not be asked to furnish the same information/particulars all over again. Banks have been apprised of the position in this regard by the Reserve Bank and advised to ensure that their decision in respect of sanction of such loans is communicated within 30 days of receipt of the application with appraisal to the DIC.

11. As at the end of March 1979, 346 DICs covering 358 districts have been set up. Some DICs have covered more than one district because of very small size of the districts. The scheme, however, excludes introduction of the DIC programme in metropolitan cities like Delhi, Calcutta, Bombay, Madras, Hyderabad, etc. The information furnished by 194 DICs reveals that during 1978-79, 59,700 entrepreneurs have been identified and for assisting them to choose appropriate industrial opportunities, over 18,600 project profiles have been

prepared resulting in establishment of over 49,600 units in the decentralised industrial sector providing additional employment to around 1.47 lakhs persons. Efforts made in obtaining credit assistance from the financing institutions have fructified and the amount of financial accommodation provided aggregate Rs. 58.72 crores. While cash subsidy amounting to Rs. 9.04 crores has been provided to 4,575 units, seed/margin money assistance has been given to 1901 units involving an amount of Rs. 2.11 crores. Apart from providing assistance by DICs in the field of technology, marketing and management benefiting over 44,000 units, 600 sick units have been assisted under the programmes of assistance to sick units. The number of new units established in a DIC is maximum in the case of Bihar (843) followed by Karnataka (500), Maharashtra (456), Tamil Nadu (334) and Gujarat (324) as against an all-India average of 235. The financing institutions have provided maximum credit facilities in a DIC in case of Andhra Pradesh (Rs.93.78 lakhs), followed by Tamil Nadu (Rs. 78.11 lakhs), Rajasthan (Rs. 64.07 lakhs) and Karnataka (Rs.63.85 lakhs) as against all-India average of Rs. 30.27 lakhs. The number of entrepreneurs identified on an average in a DIC is maximum in Maharashtra (644) followed by Orissa (516), Bihar (514) ? Meghalaya (450) and Madhya Pradesh (449) as against an all-India average of 308. The emphasis on developing artisan-oriented units has been the maximum in the case of Bihar with Karnataka, Maharashtra, Andhra Pradesh and Gujarat following in order.

12. Since March 1979, 16 more DICs have been established as per the latest information available. Out of these 362 DICs, information is available in respect of 228 DICs regarding the physical targets which they have set for themselves for 1979-80. They are summarised below:-

- (i) No. of new artisan units
proposed to be set up. : 98,656
- (ii) No. of new small-scale units : 37,882
to be set up.
- (iii) Total investment anticipated : 364.67 crores
in the above units.
 - (a) Out of which finance
to be provided by
institutions. : 236.87 crores
- (iv) Expected value of production : 674.10 crores
- (v) Employment opportunities to
be created (number of persons) : 5,42,146

13. The achievements for 1978-79 and the targets for 1979-80 noted above are admittedly modest in relation to the main objectives of the programme for rural industrial development, viz., generation of non-agricultural rural employment opportunities, and clearly brings out the need for much greater efforts on the part of the Governmental agencies as also the financial system. It is increasingly being realised that the growth of such 'tiny' industries and industries in the decentralised sector will require the growth of efficient supporting organisations which could provide both input and marketing assistance to the production activities of such dispersed and mini-scale production units. The full potential of these units can only be realised and their continued economic viability ensured by simultaneous and adequate growth of such support organisations. The traditional structure of the village and artisan industries, where private intermediaries provide such support, is a reflection of this essential need. The economic relationship of such intermediaries with the persons actually engaged in production is often exploitive but the fact remains that these intermediaries have been serving a necessary economic function and that a very large proportion of the production of decentralised industries is organised by and marketed through them. During the last three decades, efforts have, no doubt, been made to create alternate supporting structures which would not be exploitive in character. Some headway has been made in the handloom sector where, in States like Tamil Nadu and Andhr Pradesh, a considerable proportion of the production is now organised and marketed through the co-operatives. The KVIC has organised some production through co-operatives and registered associations. State-level handloom and Handicraft Corporations, the Handloom and Handicraft Export Corporation, and the Central Cottage Industries Emporium have also made some headway. All these efforts, however, embrace only a small segment of the decentralised sector and the progress has been limited.

14. In this context, it will be useful to remember that the use of local skills will not always result in production which can be absorbed in the (present or potential) proximate markets nor can the development of rural markets be planned on purely rural and/or local production. Decentralisation of production and the development of rural markets will thus both require linkages which may extend beyond the immediate vicinity and these could well spread beyond the boundaries of a district or a State or even whole of India.

15. The Working Group, referred to earlier, at para 7, has, therefore, recommended the adoption of a "two tier" approach which could aim at providing institutional support both to the entrepreneurs or artisans engaged in the production activity as also to second-tier organisations which are providing the input and/or marketing assistance. It is only by the adoption of such an approach that the viability of a particular rural industrial activity can often be judged and ensured.

16. To facilitate a systematic implementation of this concept, an informal Group has been set up by the Reserve Bank comprising representatives of the all-India promotional bodies as also commercial banks to consider such 'two tier' proposals for financial assistance, since it is very difficult, at least in these initial stages, to lay down any fixed or detailed parameters. In the evolution of such proposals, the attempt will also be to integrate the utilisation of funds available from Government budgetary sources for promotional purposes, such as training, subsidies, etc. with the flow of institutional finance for productive and commercial activities.

17. The District Industries Centres are thus an important policy instrument in the promotion of rural industrial development. The DICs will provide the necessary focus and direction to the activities for promotion of such industries at the district level but it has to be noted that the DICs will themselves not be commercial organisations which would take up the functions of input and marketing support. They will, therefore, have to establish linkages with State-level and all-India organisations in order to ensure that the production activities of the rural industries in districts are adequately supported, insofar as input supply and market outlets are concerned.

The programme of rural industrial development has also obviously to be a part of the overall plan for integrated rural development and the DICs will, therefore, have to ensure that an optimal use is made of the financial resources available from various budgetary channels in the implementation of their programme and also to integrate the use of institutional credit, through the mechanism of the district credit plans with the flow of budgetary funds.

A review of the progress made so far would clearly indicate the need for a greater emphasis in the DTCs on the promotion of village and cottage industries as compared to modern small-scale industries. This is, by any measure, a complex and challenging task which would require adequate planning and innovative approach. It is, however, necessary to ensure that the main objective of the rural industrial development programme, viz., creation of viable non-agricultural employment opportunities, is constantly kept in view while drawing up further programmes.

SOURCE: Paper presented at the Seminar on
Loan Assistance to Weaker Sections
(5 to 7 November 1979) at the College
of Agricultural Banking, Reserve
Bank of India, POONA.

INTEGRATED RURAL DEVELOPMENT

(As described in draft Five-year Plan 1978-83)

The Secretary for rural development in the plan will be integrated rural Development (IRD). Experience of various rural development programmes in the earlier plans has shown that a more project approach or a sectoral approach is not adequate to lead to an overall development of the area and distribution of benefits to local population, particularly the weaker sections of the society. The distribution of unemployment and poverty and the potential for development of agriculture and related activities vary widely from region to region and also within regions. Different areas in the country are at different levels of development and have varying degrees of potential depending on local endowments. The efforts will now be to make the programmes area specific and utilise the local endowments for growth for social justice and full employment. It will, therefore, be necessary to plan for integration of various programmes and establish appropriate linkages for optimal utilisation of local endowments consistent with the plan objectives, local needs and environmental balance. The full employment aimed at is on a fair remuneration for the work done and the effort made so that a fully employed family can go above the poverty line.

The Integrated rural development now envisaged will be specially focused on the target group comprising small and marginal farmers, agricultural labourers and rural artisans, whose economic improvement is an important concern of rural development. This approach will help a substantial part of the Scheduled Caste and Scheduled Tribe families who are amongst the most disadvantaged sections of the population. The approaches in the on-going rural development programmes, viz. SFDA, DPAP and CAD which are broadly area development programmes having the uplift of small and marginal farmers and the landless labourers as their main thrust, are proposed to be utilised according to their main thrust, are proposed to be utilised according to their relevance in particular areas to achieve the twin objectives of generating employment opportunities and increasing production.

The new approach will aim at integrating field programmes reflecting the economic activity of the rural family whose employment and development is the basic objective.

It is proposed to bring this about by developing the primary, secondary and the tertiary sectors. In the primary, sector programmes for agriculture, animal husbandry, fisheries and forestry development will be intensified. In the secondary sector programmes for villages and cottage industries as well as small scale industries, skill formation and supporting services will be substantially enlarged and strength. Tertiary sector will be developed by creating facilities for organised marketing, processing and allied activities so as to absorb increasing number of local people. The programmes of animal husbandry will be specially oriented to include a good part of the rural labour population with special preference to Scheduled Caste families who are generally a major component of the landless. The social forestry programmes will be suitably oriented to give a fodder base to such labour families for animal husbandry development. In the fisheries programme, special steps will be taken to see that the backward sections of the population like fishermen class are given suitable rights of exploitation.

The following developmental programmes will, as a first approximation, be integrated:

- 1) Programmes of agricultural development including efficient utilisation of land and water resources with scientific technology available;
- 2) Programmes of animal husbandry as a subsidiary occupation mainly directed to small peasant households so as to maximise utilisation of by-products in the farm and, at the same time, aiming at commercial production of animal husbandry products. Necessary infrastructure for commercialisation would be inbuilt in the programme;
- 3) Programmes of inland water and brackish water fisheries to maximise output of fish per unit of water and develop as an important occupation for the fishermen classes and such other backward classes in the economy;

- 4) Programmes of marine fishery including harvesting of natural resources through trawlers, mechanised boats and country boats, keeping in view the need to maximise employment of the poorer section of the fishermen population and preventing unhealthy competition between the three sectors to the detriment of the poorer classes;
 - 5) Programmes of social forestry to provide a base for fuel and fodder in the economy and with special earmarking of usufruct for the poorer sections of the community for exploitation as an occupation or as fodder for an animal husbandry programme. Tassar, eri and muga and lac rearing by the poorer sections should be inbuilt into the programmes;
 - 6) Programmes of farm forestry through the small peasant households as a subsidiary income and also for maximising use of land;
 - 7) Village and cottage industries including handlooms, sericulture, bee-rearing etc. as a full or part-time occupation to the artisan classes of the rural population;
 - 8) Service sectors of the rural economy as self-employment sectors for the poorer families both as a means of providing for a felt-want in the economy and as a means of better livelihood to the poorer sections;
 - 9) Labour programmes of skill formation and labour mobility to meet the needs of organised labour for development works and of the nature of employment guarantee programmes where necessary.
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CONSUMPTION FINANCE AND INTEGRATED
RURAL DEVELOPMENT (DISCUSSION NOTE)

A.D. PURANIK

There is heavy concentration of poverty stricken people in rural areas. They do not get income enough to sustain themselves in life. They are either farmers of small size of marginal size or agricultural labourers. One may also include in this category village artisans of different types.

They have very low accessibility to various institutions supplying finance for different durations. It is very difficult for them to buy inputs to improve productivity on their lands. The opportunities for gainful employment on continuance basis are virtually absent. If their economic conditions are to improve many radical measures will be required. For instance, rapid and meaningful implementation of land reform programmes, proper orientation of various institutions supplying finance and proper marketing arrangements for improving their bargaining position in the market are some examples of policy measures required to tackle their problems. In addition to it, other infrastructural facilities will also be required. So far as these measures are concerned, there is nothing new about it. In the post independence period the government has been taking interest in framing and implementing different policies in this regard. One important consideration that has acquired great importance on the Agenda of Socio-Political discussion is the supply of adequate consumption finance for the poverty stricken people.

Even though consumption finance has been emphasised since long, it has been acquiring great importance since 1971. The Report of the Expert Committee on Consumption Credit under the Chairmanship of Shri Shivraman is a very important document and land-mark in the thinking about the poverty stricken rural population in rural areas. It has been largely accepted by now that adequate and timely supply of consumption credit or finance to these categories of people would go a long way in improving their ability to have self reliance. Even though this point is accepted unanimously, there is considerable controversy as to how consumption credit or finance should be integrated. The Expert Committee has, for instance, pointed out that an element of consumption finance is included in the short-term loans supplied by cooperative institutions. Reference is also made to the scheme of consumption finance introduced by

the government of Maharashtra. Consumption loan would be made available against the security such as gold, silver, utensils and other similar things. Barring these two things, the Expert Committee has come to the conclusion that there is no institutional arrangement for supply of consumption finance to the poor people. The Committee has also pointed out that unless consumption finance is provided to the poor people, the institution of private moneylending-cum-trading cannot be effectively abolished. As a corollary it also means that the poor people would always be in the condition of bondage. Hence it has emphasised that "consumption finance" would be an instrument to remove exploitation done by money lenders and traders. In other words, according to the Expert Committee, Consumption finance has to play a role of negative nature.

One gets an impression after reading the report that the concept of consumption finance is restricted only to the problems of exploitation. As a matter of fact, so far as the economy of the weaker sections is concerned, adequate and timely provision of consumption finance will not only remove exploitation but would also motivate the beneficiaries of consumption finance and production finance to improve productivity on their lands. If this aspect of consumption finance is taken into account it would be realised that there would not be any distinction between consumption finance and production finance. As long as they are treated as separate types of things in the context of the economic problems of the weaker sections it is very difficult to evolve policy measures to motivate people to improve productivity.

As this view has not been adequately incorporated into the working of governmental, cooperative and banking institutions, consumption finance is largely treated by officers and lenders as non-recoverable amount. This is so in spite of various schemes evolved to ensure recovery of consumption finance along with production finance.

There is another view in relation to consumption finance. The view supports clear-cut distinction between consumption finance and production finance. It means that consumption finance is to be treated as a relief measure. This approach may be relevant in the context of urban areas where people belonging to lower income groups would like to have a facility of consumption finance at reasonable rate

of interest to meet certain eventualities in their domestic life. So far as the rural areas are concerned, there cannot be sharp distinction between production finance and consumption finance, even though the cooperative institutions are under obligation to keep separate accounts of both. From the point of view of the poor farmer, consumption finance ensure his continuation on his farm or in the village. If this point is accepted then, it would be realised that there is a communication gap between the institutions and the beneficiaries of the institutions so far as the concept of consumption finance is concerned. As long as the thinking of the beneficiaries of consumption finance in rural areas is not taken into account, there would always be difficulties in recovery of both production and consumption finance. Inclusion of an element of consumption finance in which the short-term finance provided by cooperative institutions is a mockery of the poor. It makes nonsense of the talk and policies to improve the economic conditions of the people.

Consumption finance is, of course, a loan which has to be recovered. But this element of loan should be integrated with production loan and the recovery plan should be based on the concept of this integration. The produce of the farmers would be his strength. The price at which he would be in a position to sell his produce would determine the income that would accrue to him. If the formula of repaying capacity is to be made applicable in a mechanical manner to the weaker sections the realisation of the incremental income implied in the formula may not always be possible. In this situation it would be very difficult for the poor person to earmark an income for repayment of production and consumption loans. Hence alongwith the integration of production and consumption finance, it is also necessary to see that the government provides the required infrastructural facilities on appropriate basis. Poor recovery of loans may be due to absence of such facilities. Hence the concept of consumption finance is much wider than the narrow view reflected in the policies of various institutions and the government. The Production-cum-Consumption loan should be integrated with marketing of the produce. Greater the marketable surplus, greater would be the prospect of recovery of all loans. Hence marketing facilities are to be properly integrated with the production efforts. Production of loans at lower rate of interest is a very superficial remedy for meeting the problems of the weaker sections. It only amounts to hiding the failure of

the government to create adequate infrastructural facilities. If the environment and the framework are conducive to productive effort even the poor man would never consider rate of interest as a burden. The scheme of concessional finance is interpreted by him in a manner that don't promote economic growth.

In the light of these considerations, it is necessary to go beyond the concept of consumption finance has included in the Expert Committee Report.

Source: Paper presented at the Seminar on Institutional Financing for Integrated Rural Development conducted by the Váikunth Mehta, National Institute of Cooperative Management, Pune during December 27-29, 1979.

"Role of Agricultural Credit Service Cooperatives in Integrated Rural Development in India"*

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Introduction

PART I AND II

In the Development of agriculture, credit is one of the most vital factor determining the pace and rate of Development. This is so because credit is an input by itself and it is also enabling input for the entire package of inputs needed for development.

The Cooperative movement in India was formally introduced in the year 1904. For a long period since then, and even during the phase of hectic post independence cooperative development, agriculture credit cooperatives enjoyed prime importance in the planned programme of economic development. The planners have been reiterating the objectives of growth with social justice in each plan. In the Sixth plan of the country Integrated Rural Development is envisaged as a major thrust for achieving growth with social justice. In the existing rural situation the cooperative credit system will be suitable socio-economic framework for Rural Development in India.

In the rural sector, there has been marked growth. The policy is that the primary societies should not confine themselves to credit but should become multipurpose societies supplying seeds, fertilisers improved implements etc. In 1962 there were 2,15,000 primary societies, with a membership running into millions. The federal structure for these primary societies has been completed by the establishment of Central (387) and State (21) Banks in all areas. The total working capital was about Rs.930 crores. The Recommendation of the All India Rural Credit Survey Committee that these primary societies should be linked up with cooperative marketing societies primary, central and apex is being given effect to steadily.

*The first two parts of the paper have been condensed and the III part has been given in its original form.

It was realised at the outset that the large expansion and diversification of the co-operatives thus envisaged could be achieved only through a positive policy of assistance from the state, central Government and Reserve Bank of India. The Reserve Bank of India has constituted two funds:- The National Agricultural Credit (long term operations) fund and the National Agricultural Credit Fund (short term) to give.

1. loans to State Government on favourable terms to enable them to take shares directly or indirectly in co-operative credit societies of all kinds.
2. Medium and long term loans to state co-operative Banks.
3. long term loans to and buy debentures in the central land mortgage banks.
4. social assistance in cases of wide spread calamities - drought, famine etc.

For providing short term credit the Reserve Bank of India gives loans to State Government upto specified limits. The union and State Government upto specified limits. The union and State Government also assists co-operatives of all kinds under specified conditions. All the State Governments have accepted this in principle. The most effective answer to the challenge, however, lies in the achievement by next decade's annual rates of growth in the economy, which would be needed for reaching the goal it has placed before itself

The welfare of the Scheduled Tribes And Backward Classes is a special responsibility of the union Government under the constitution of India. The general co-operative pattern has been modified to suit their special conditions and fair progress has been registered in the last 15 years. A study group had reviewed the progress made and suggested changes in structure, patterns of assistance and professional training programme to make credit societies a real impact on the lives of rural people. However credit system has to cover the credit gaps which are found even in a developed economy. These gaps are enumerated below:

1. The credit gap for innovational finances arises from the divergence between the social rate of return and private rate of return. Agriculture is a fluctuating and risky business the cost of credit expansion will be highly and returns are likely to be low, Default-smore probable and normal security requirements are

either inadequate or at times, non-existent. In a situation like this, the credit co-operatives have to assume the innovative role to overcome this gap by the concept of social profitability. It would be worth while to have lower return in immediate present for the permit of higher profits in not so distant future.

- II. Secondly, the credit gap for financing medium and long-term projects is also obvious because longer the project period greater the prospect of uncertainty. This term gap causes maldistribution of resources adversely affecting long term projects by adopting non-myopic approach, credit co-operatives have to overcome this credit gap. Lastly, the problem of credit gap for financing small farmers is quite pronounced in our country, as our economy is predominated with small farmers.

Thus, in providing agricultural credit, the co-operatives have to adopt unconditional, integrated and innovative approach to provide finance on the basis of credit worthiness of purpose. All India Rural Credit Survey Committee (1954) has ideally envisaged crop-loan system to provide credit that is timely and adequate, and also to bring about increase in productivity. These basic functions of co-operatives ultimately lead to the self reliance of co-operative members.

Again, the concept of Supervised credit i.e. farm guidance; has been well recognised in context of rural India. These functions are inevitable, to ensure effective performance of co-operatives merely providing credit-loan will not serve the purpose. Apart from material inputs, ancillary services (Technical input) is most essential to increase the productivity. Thus, extensive farm guidance will include developing storage, processing, marketing facilities, financing inter-structural development.

PART - III

Some Operational issues:

Having innunciated the role of the Agricultural credit cooperatives in integrated rural development and examined their structural evaluation to perform this role effectively and efficiently, it would be appropriate to enumerate some of the operational issues of the primary credit cooperatives.

Magnitude of credit needs:

The cooperative credit structure in India has registered a magnificent growth and what started as a mere trickle way in 1904 has appreciably grown into vast stream of credit flow. However with the unprecedented agricultural growth in several parts of the country, particularly in the command areas of assured irrigation facilities, the demands for agricultural credit have been multiplied many folds.

Again the need to provide inputs and other services as also to meet the needs of small and marginal farmers have also added to the magnitude of the Agricultural credit requirements.

The cooperative credit structure therefore will have to gird up its loans to meet this ever accelerating credit demands by mobilizing deposits and augmenting all other resources for the purpose.

Finance to weaker section:-

In the rural scene of India, there is sizeable proportion of small/marginal cultivators. These cultivators who along with others, constitute weaker section of the rural community have to be provided with adequate agricultural credit by the cooperative credit structure. This is not only necessary on account of strong social philosophy of cooperation but also desirable in the interest of overall agricultural development.

The cooperatives have also been provided with the policy guide lines by the Reserve Bank of India that the finance to small farmers, as may be defined in given area, should constitute prescribed minimum proportion of the total Agricultural finance by cooperatives.

Operational Efficiency:

With the adoption of multi-agency approach in providing agricultural credit in 1969, cooperative credit structure is no more the exclusive agency for agricultural credit. Under this approach new Nationalised commercial banks also have been playing an increasingly important role in providing agricultural credit to meet the ever increasing demands of Agricultural credit.

This situation has thrown new challenges to the co-operative credit structure which have to be responsive not only to ideological goals but has also to ensure higher norms of operational efficiency. The operations of credit cooperatives therefore have to be more sophisticated and enormous in qualitative aspects, whether they concern raising of resources distribution credit, supply of inputs or dispensation of farm guidance.

Professionalisation of Management:

The scale of operations of the Agricultural credit cooperatives and need to ensure higher norms of efficiency make it inevitable to professionalise management in co-operatives at all levels including the primary. In this process of professionalisation of management, cadre building is very vital but it has to be supported by a well defined demarcation of spheres of actions by professional personnel and elected office bearers. Such demarcation, carefully designed and faithfully implemented will usher in professionalisation of management in cooperatives, the urge for which is already evident in cooperative movement in India.

Manpower development:

In the ultimate analysis, it is the human resources which translate into action the ideological and operational goals of an organisation. The manpower development in cooperatives transcends mere management considerations. In fact, it is a major built-in device to preserve the autonomy and a identity of cooperatives. The manpower cadre of professionally competent personnel, scientifically recruited and appropriately trained constitutes a basic management infrastructure.

In fact, there is hardly any report of a committee of a study group of experts, examining the cooperative movement, which did not lay an unmistakable emphasis on this very vital aspect of management development in cooperatives. It is heartening that this need of man-power development through trained cadre formation has since been recognised in the cooperative credit structure but then the cooperative credit structure has to make sustained efforts to this end to effectively fulfill its many and varied objectives and to still-better serve the causes it is expected to serve.

In very aptly summing up this issue, All India Rural Credit Survey Committee in its monumental report had observed, "On few things will the success of integrated scheme (of cooperative credit) depend so much as on finding the right man and giving them right training. What is involved is no less than the creation of large body of trained and enthusiastic workers-both men and women-who are willing to share the life of rural India, strive to understand the need of all classes, including the weakest and in administering these needs, prove themselves business like and efficient no less than keen and sympathetic.

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ASPECTS OF CREDIT PLANNING AND CREDIT GAPS

Dr. GS Kamat

Background:

Under pressures of time one notices an ostensibly aggressive bias in favour of the Indian rural sector in the development efforts and their financing in recent years. The long term plans and financial policies reflect clearly this trend. The new concept of Integrated Rural Development Programme (IRDP) provides an instrument for the task of achieving near full employment and making rural households economically viable through mixed economy within a time span. More specifically, the Sixth Five Year Plan (1978-83) aims at :

- (i) agricultural and rural development with social justice
- (ii) assuring full employment in 10 years
- (iii) improvement in agricultural productivity, and
- (iv) providing special assistance for development of the weaker sections

The employment objectives, in particular, are weighted towards agricultural sector and sizeable labour force is expected to be absorbed in agriculture and allied activities. A growth rate of 3.98 per cent per annum is envisaged for the agricultural sector, while output of milk and milk products is expected to grow at 5.23 percent and other animal husbandry products at 4.00 percent. Irrigation potential will be increased by 17 million hectares leading to cropping intensity of 1.26. Fertilizer consumption is expected to reach a level of 7.8 million tonnes. A major thrust in expansion in rural industries is also contemplated. All this would lead to generation of employment opportunities in rural areas, in production and service sectors.

The overall task of rural development gets quite complicated in the face of serious variations in social, economic and ecological conditions within which the plan process has to be worked out and executed and particular, through people's participation to the extent possible.

Change over to Block Level Planning :

Against the background of experience over the years, the Planning Commission has now emphasized the need for block level planning in the context of the new objectives set for the country. There are about 5004 blocks in the country covering a population of 0.1 million each. The integrated

rural development programme is proposed to be undertaken in 2000 blocks (out of 3000 blocks in which, one or more of the special programmes like the SFDA, DRAP and CAD are in operation). Further, 300 blocks will be taken up each year for intensive planning and development for five years, starting from 1978-79.

Credit Projections:

Credit being an important input of agriculture and rural development, the banking system of the country will have to gear up its organisational and operational capacities in years to come for the purpose. The projected need for institutional financing by commercial and cooperative banks by 1985 would be over Rs. 16,149 crores at 1974-75 prices. It is composed of (a) short term credit for irrigated and unirrigated areas and for milk piggery, poultry, sheep and fisheries amounting to Rs.7884 crores (b) medium term and long term credit for respective areas around Rs.8265 crores. This is exclusive of Rs.8600 crores for agriculture and allied activities and Rs.30,000 crores for rural development representing 43.1 percentage of total public sector outlay. A graduated assessment has been placed around Rs.4008 crores of short-term credit and Rs.5425 crores of term credit. A recent estimate for 1978-83 Plan period is placed at Rs.3900 crores of Short Term Credit and Rs.6300 crores of term credit. The programme is dependent on institutional credit and envisages exploitation of ground water for minor irrigation, land development and reclamation, better water management practices, laying of field channels, horticulture and forestry, animal husbandry and fisheries and intensive application of inputs for crop production. (Agriculture Credit Policies & Programmes for SFD in Asian and Pacific countries APR ACA No.3 March, 1979 P. 34.)

Current levels :

The current levels of ST and LT credit are around Rs.1600 crores and Rs. 750 crores, respectively. Thus, there is need to achieve an increase of about 250 p.c. in ST credit and 70 p.c. in LT credit per annum on an average to reach a moderate level of requirements from institutional financing agencies. The proportion of credit going to weaker sections would also have to be pushed up to 50 p.c. of the total in the current plan period.

The non-institutional credit source, even today, is not insignificant. In 1961, it amounted Rs.2,375 crores to rural areas and was reported to have gone upto Rs.2,667 cores by 1971, according to official estimates. A recent study

(1975-76) in Ludhiyana district (Punjab) revealed that in this relatively affluent area more than 51 p.c. of term credit and over 56 p.c. of ST credit borrowed by small farmers was from non-institutional agencies. The borrowings were for both, investment and consumption purposes.

Multi-agency approach :

This brings out clearly the need and scope available for implementing the multi-agency approach in the agricultural and rural sector of the country. Broadly, this approach was adopted since 1969, after the nationalisation of 14 largest commercial banks in the country. Over the years, the problems encountered in implementing the policies under the multi-agency approach have been quite numerous. These have been referred to from time to time by various committees of experts and in conferences on the subject of credit for agricultural and rural development. Overlapping jurisdiction, dual financing of farmers, variations as to criteria, procedures and terms of lending are some of the more familiar problems.

Performance :

The main constituents of the multi-agency structure operating in the rural sector since 1969 have been cooperative banks, commercial banks and the Regional Rural Banks. There has been a remarkable expansion in quantum of institutional credit provided for various activities in the rural areas. The primary village credit cooperatives have a membership over 45 million. They had advanced loans to about 21 million members and are the largest source of institutional credit. The commercial banks have covered about 20600 rural and semi-urban places through their branches and have been providing credit either directly or indirectly through the 3000 attached primary societies to individual borrowers. Further, the Land Development Banks and the Regional Rural Banks have also been functioning for the same purpose in the rural areas. The cooperatives recorded an increase in short medium and long term credit to Rs.1590 crores in 1978 over their level of Rs.652 crores in 1969. Similarly, direct credit to reached an amount of Rs.767 crores by 1978, from almost an insignificant amount in 1969. There has been a considerable increase in the number of their borrowers from the weaker sections. It is reported that in 1977, share of weaker sections in commercial bank credit was about 42 p.c. of total direct credit for agriculture and

38 p.c. in the case of primary village cooperative credit societies. The Regional Rural Banks which were set up to provide institutional credit particularly to the weaker sections had also extended 62 p.c. of their advances of Rs. 30 crores to the small/marginal farmer's and landless labourers (Assessment of multi-agency financial of agriculture - S. Satyabhama - The Cooperator - July 1, 1979). The performance of cooperatives however shows an uneven progress through out the country. An increasing number of credit cooperatives at the rural level are growing weak progressively because of high percentage of overdues. This was one of the reasons that led to the decision, requiring the Commercial banks to enter the sphere of agricultural credit. The multi-agency approach has since been the corner stone of the plan policies on institutional credit in the field of agriculture and rural development.

The Lead Bank Scheme

In order to secure co-ordinated development of the emerging banking system, the Reserve Bank, soon after nationalisation introduced the Lead Bank Scheme. Under the scheme the "area approach" was recommended for the development of the district (the unit of area assigned to the lead bank specified) as innunciated by the Gadgil Study Group of the National Credit Council. All the districts in the country, excepting the metropolitan areas and Union Territories, were allocated to different commercial banks each of which was expected to act as the 'lead bank' among the operating financing institutions in the lead district in matters relating to deposit mobilisation, identifying prospective avenues for financial assistance and ensuring adequate credit flow for intensive exploitation of the economic potential in the district concerned. This was also an attempt in the direction of correcting regional imbalances in the growth of banking.

Under the scheme, all the districts were allotted to the public sector banks and a few of the private sector banks. (No District Central Cooperative Bank was appointed as the lead bank even in a highly cooperatively developed district although such a feasibility was accepted in principle). The study group on the working of the lead bank scheme in Gujarat and Maharashtra appointed by the PBI in its report observed that the part of the scheme relating to opening of branches and identification of centres of potential growth of banking was, by and large, successful. The establishment of a number of branches in the rural and semi-urban areas

to provide wider operational base for initiating banking facilities in the under-developed areas was largely achieved as a result of the lead bank scheme. The achievement, however, has remained restricted to this stage of development. It is clear, mere opening of branches alone will not bring about development of the rural areas. The potential for growth in these areas is very high because of the abundant existence of natural resources. This has been brought out by various survey reports. The lead banks unfortunately have not been able to tap these resources for the development of rural areas within their area of operation so far.

The year 1975 noticed another stage of development when the banks were asked to speed up the preparation of the district credit plans. This phase also came to a close with the direction from the Reserve Bank to complete the credit plans by March 1978. In between this time, some credit plans were prepared in haste. There was no particular methodology prescribed by the study groups recommending district credit plans. The credit plans, therefore, differed in their methodologies, in assumptions, formulations, and even in presentations. The whole process of lending to neglected sectors was conducted under the pressure of time and conceptual clarity was generally overlooked. The objective kept in view was restricted to identifying technically feasible and economically viable schemes based on the existing infrastructure (or with marginal improvement in it) for completing it within a short period of 3 to 5 years.

District Consultative Committees:

The lead banks also constituted District Consultative Committees to provide a forum for the bankers and administrators concerned with development of that area to discuss various problems and take remedial measures. These meetings, as has been reported, were viewed as "more rituals and not to be taken seriously" (Report of the study Group on the working of the lead bank scheme in Gujarat and Maharashtra. RBI, 1975 P.8). Further, there was no follow-up action on the part of the banks as also of the administrators. In some cases the bank selected to lead a particular district was alien to that area, and lacked the much desired 'local' touch. There was difficulty in eliciting cooperation from other financial institutions operating in the area. The apathetic attitude of other non-lead banks functioning in the area also contributed to the dilution of the impact expected to be made by the lead bank scheme. As stated earlier, perhaps, the strong and well managed District Central Cooperative Banks with the help of influential local leadership and local touch could have contributed more to the success of the scheme if they had been appointed as lead banks for their areas. Some of these banks have an excellent

net-work of offices in all the important places and they have primary village societies affiliated to them, which work further into the interior parts, upto the village level. These DCC Banks have mobilised sizeable deposits as well from the area. Some of these banks have also the necessary political support. On the basis of these factors they could have been expected to meet the requirements of the lead bank scheme. However, they have been kept outside the scheme in the face of their specific concern for the development of their own district.

While allocating districts to different lead banks in 1969 the RBI had broadly indicated nature of tasks involved. For instance, in order to have the feel of the district economy, the banks were asked to carry out impressionistic surveys and identify growth centres for establishing branches of the banks to provide operational base. The precise scope and content of the lead bank scheme was then not fully grasped by the bankers. This was expected to set the stage for the formulation and implementation of area development plans.

District Credit Plans

The formulation of bankable schemes and drawing up of district credit plans by the lead bank also required rapport between the lead banks and the concerned government agencies. But as stated earlier, the medium of district consultative committees did not function as expected. An ideal district credit plan has to be co-ordinated with the district development plan which necessitates collaborative efforts by all the agencies concerned in the development of the district. This was not necessarily forthcoming. This is revealed in the report of the study group appointed by the RBI to review the working of the lead bank scheme.

What type of district plan was envisaged under the scheme? It was not the methodological excellence that was envisaged. The stress was on expeditious preparation of technologically feasible and economically viable schemes and their collective implementation by all financial institutions in the area. It was speed and activity oriented planning that was emphasised. Some of the economic activities like dairy, blacksmithy, pottery shoemaking, lockmaking can be formulated and implemented without much collaborative efforts of other. On the vast countryside there are many opportunities available for the bankers to

act upon, without waiting for collaboration of developmental authority for completing this specific part of the district credit plan. A "growth centre" approach for development of backward areas would thus present further opportunities for integrated rural development. The lead bank scheme was also intended to secure spatial linkages side by side functional linkages. Both are interdependent and complementary to each other. The district level credit plan should have provided for integration of both the types of linkages. Although the number of beneficiaries of plan credit have vastly increased, they have not achieved the objective of developing backward areas due to neglect of the above approach.

Credit Gaps

It is now realised that mere production of district survey reports is not adequate. The studies to estimate credit gaps in the district are also important. The methodology adopted to estimate credit gap is found to have differed from bank to bank. The State Bank group is reported to have evolved a methodology for preparing a reasonably sound district credit plan. It covers study of potential resources and felt needs of the area, in question, preparation of technically feasible and economically viable schemes in relation to potential resources and needs of the area to ensure best results from the financing of these schemes. These schemes are prepared in an integrated manner, keeping in view their backward and forward linkages. Infra-structural gaps, influencing implementation, are spelt out and financial resources are estimated to minimise unforeseen problems.

The growth centre approach should therefore help to achieve in a greater measure, the objectives of the lead bank scheme. Thus, for example, larger villages and small towns have the capacity to regenerate backward areas and their intensive development can help to check the process of polarization which has been unfortunately operating over the years of planning in favour of metropolitan cities. The objective of planning should be to retain population in the rural areas by providing them economic opportunities at local levels over and above those available in farming and other existing socio-economic activities. The scheme to develop backward areas through financing of primary, secondary and tertiary sectors is techno-economic in

nature yet the credit plans should not go by the private cost and benefit criteria without securing diffusion of development. The criticism against the district credit plans has been that they have also fallen into the same pitfall of sectoral planning at the district level.

New Credit Plans

Now the RBI has called all the banks to terminate the present credit plans by December 1979. These are to be followed by new plans with a uniform period of three years. (from 1979-80 to 1981-82). The RBI has constituted a Rural Planning and Credit Cell in its office for the purpose of direction and supervision. The new credit plans are expected to secure better integration of the functional and the spatial type. Either to as stated earlier, the schemes were formulated independantly and bound together. Their credit estimates were a simple arithmetical exercise. It is now recognised that, side by side, identification of technically feasible and economically viable activities, estimation of the number of units to be financed under the activity is also necessary. With the block as the unit of geographical area for planning, assessment of the resources of the block and planning for their use has become imperative. The preparation of the district credit plan should be through the process generated from below. Thus, identification of physical resources should be studied in every block or for blocks in the homogenous region, specifying activities relevant to the region and these programmes should be further built up in an integrated manner for being incorporated in the District Credit Plan, establishing the relationship with the estimated financial resources.

Further, for the block level credit plans, data relating to number of units to be financed under the activity may have to be collected or estimated. This may be a rather complicated task in the preparation of the credit plans. Under the old credit plans, because of the lack of data, credit estimates were made for the district as a whole. Whatever credit gap that was arrived at was calculated for the entire district as a unit. Its apportionment amongst the individual blocks was not clear. Further, some credit plans had not estimated the credit gap, but they presented only an action plan, while some other credit plans estimated the credit gap before formulating the action plan. The reason for not estimating the credit gap, according to one view was that it was quite wide and there was at any rate vast scope for extending credit without fear of reaching the saturation point. However, if the action plan is relatively small in relation

to a wide credit gap, it is feared that it may lead to pressures on financial institution.

Credit
Gaps-Selective
Approach

According to another view, credit gaps may not appear to be so wide in relation to specific sectors of economic activity, such as small scale industries, retail trade and those agricultural activities where possibilities are restricted due to technical considerations (For example, availability of ground water, farm mechanization etc) If the obviously limited scope in relation to such areas is not properly estimated the danger of overfinancing cannot be ruled out. We have such areas available where near-saturation point has been reached. The scope of activities allied to agriculture has to be decided against the background of the infrastructure facilities available. In case of crop production, which is the main activity in the credit plan, the credit gap is truly wide in the face of numerous needs. The commercial banks have still to be adequately oriented to committing more resources to crop finance while the cooperative credit institutions continue to function in the traditional manner. Their participation in the exercise of credit plan allocation, implementation and direction has been rather passive all along.

The commercial banking system appears to be suffering from a dilemma under which large and medium scale industries cannot be denied finance without detriment to industrial production and the weaker sections of the community cannot be refused finance without a serious set back to public polity. The banks do not have adequate resources to meet total credit needs of both. Consequently, priorities must be determined. Should this task be left to the discretion of each individual bank and expect them to prepare its own credit plan in tune with the guidelines provided as regards appropriate priorities in lending? The current process of credit planning is more of a directional nature. No attempt is seen towards determining qualitative allocation of total flow of credit. Credit Planning involves an assessment of optimum expansion in bank credit that is permissible and its apportionment among various sectors and subsectors of the

economy in accordance with the plan priorities. As stated earlier, if the process starts from below a credit plan for the country as a whole may emerge out of this exercise. A ready made blue print directing amounts to be lent to various sectors may be found too rigid at the unit level. While basically, planning of credit budgets should be individual bank's responsibility and nation's credit plan should be dependent on it, it is conceded that individual bank should also keep in view economic indicators, priorities and policy objectives available while estimating credit needs of specific sectors. India is a vast country with serious variation in sectoral needs and problems of organisation and operations. Micro-planning is, therefore, desirable at the block level. The information that has been collected by the lead banks for the allotted districts can provide sufficient basis for credit planning for a block or a group of homogeneous blocks.

New Guide-Lines

The new guide lines issued by the RBI for the preparation of district credit plans under the lead bank scheme observe, in relation to the issue of credit gap in the context of production loan, in the following manner:- "The difference between the estimated credit requirement thus arrived and the total of allocations accepted by the different lending institutions in the district, indicates the gap in crop loan availability from the institutional resources. Banks have to take steps to strengthen their organisational set-up for this purpose", (Lead Bank Scheme district credit plans-New Guidelines page-5). The new guide-lines require that task of individual agency should be specified at the block level in regard to crop loan. For other schemes its responsibility may be stated in aggregate terms.

Direction and execution of the plan process, it is suggested, would require that planning and allocation also are done blockwise. The schemes are however, specific and therefore, allocation has also to be done schemewise to facilitate their monitoring. The picture of achievements in different blocks in relation to the target's set would then become more clear. As stated earlier, the schemes would be according to the priorities but here again finer distinctions may have to be made between one scheme and another because, while coming to details, priorities within the priority sector may have to be determined.

The District Credit Plan has also to be linked as stated earlier with the development plan of the district. Barring a few relatively independent sectors, there are activities, the financing of which may be directly dependent on the provision of infra-structure facilities through the development plan. Hence the need for linkage between the two.

In response to the new guidelines the Block Level plans have to be prepared in such a way that their operational utility is enhanced. All the Co-ordinating agencies should be involved in the preparation of the credit plan so that it is logically integrated to the district credit plan. Through this process credit gaps could be revealed in a more realistic manner which can also be handled in a more effective way. The objective underlying is that the present imbalance in regional development should be remedied through more equitable distribution of institutional credit facilities for execution of technically feasible and economically viable schemes that are drawn blockwise in tune with the accepted priorities.

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Source: Paper presented at the Seminar on Institutional Financing for integrated Rural Development conducted at the Vaikunth Mehta National Institute of Cooperative Management, Pune-16, during December 27, 1979.

A Case for Reviewing State Enactments
Supporting Commercial Banks' Advances
to Agriculture

G.A. PAI

CONSEQUENT upon the nationalisation of 14 commercial banks in 1969, banks were called upon to extend short, medium and long term loan assistance to farmers with the twin objectives of modernising agriculture and increasing agricultural production. Banks have fulfilled this role to a large extent during 9 years ending 1978. There has been breakthrough during this period in the agricultural production which increased from 94.1 million tonnes in 1968-69 to 132.8 million tonnes in 1977-78.

Security oriented lending policy with necessary modifications which was extended by commercial banks to agricultural loans enabled all categories of farmers to obtain loans from commercial banks. According to data published in the Economic Survey of Government of India for the year 1976-77.

"By the end of January 1977 outstanding advances for agricultural programmes by commercial banks (short, medium, long term) exceeded Rs.1,280 crores." But commercial banks had to face real problems while effecting recoveries of loans in accordance with the repayment schedule from the farmer borrowers and dealing with wilful defaulter amongst them.

State Government and co-operative loans had priority by way of first and second charge on landed property of the farmers and commercial banks' loans had the subsequent charge. Over and above this, co-operatives were empowered to attach the property of defaulter borrower while commercial banks had to institute legal proceedings for recovering the loan instalments.

With a view to remedy the anomalous situation in which commercial banks faced a distinct disadvantage as compared to co-operatives in respect of recovery of loans, Reserve Bank of India appointed in September 1969, an Expert Group on state enactments having a bearing on commercial banks lending to agriculture under the Chairmanship of Shri R.K. Talwar, Chairman, State Bank of India. One of the terms of reference of this Committee (Talwar Committee) was "to examine the provisions of various land reforms legislation relating to the regulations on sale of land applicable to lands coming into the possession of institutional credit

agencies during the process of recovery of loans in respect of (a) categories of persons to whom agricultural land could be sold: (b) the price of which land could be sold: (c) teasing out of land temporarily; (d) sale of fragments; (e) right of pre-emption of adjoining land holders etc., and to suggest amendments of administrative measure, for safeguarding the interest of the institutional credit agencies."

In pursuance of this term of reference, the Talwar Committee recommended a Model Bill--The Agricultural Credit Operations and Miscellaneous Provisions (Banks) Bill 1970 for adoption by all States and Union Territories with modifications, if necessary, to suit tenancy laws already in existence in the particular State.

As on date, 15 States have adopted this Model Bill--7 States and 9 Union Territories have not passed the Bill. There are deficiencies in the laws passed in the States with the result that the emerging law is found to be largely ineffective and of inadequate assistance to commercial banks in their lending to agricultural sector. Some of the drawbacks of the Model Bill and State Enactments are as follows:-

1. The word 'agriculture' has been exhaustively defined in the Model Bill, but a full coverage has not been given in this expression in many of the State enactments, e.g. agricultural activities such as dairy farming has been excluded from definition of the word agriculture in some state enactments.
2. Although the Model Bill provides for alienation of land in favour of commercial banks to secure financial assistance granted to agriculturists, some State enactments still make reservations, particularly, with regard to lands held by marginal and small farmers as also lands held by members of the scheduled tribes and castes.
3. Although, the Model Bill provides for a charge being created by a declaration, the West Bengal Law on the subject for example provides for a mortgage to be created by a declaration.
4. There is no provision in the Model Bill as also in many of the State enactments for encumbering the property of the guarantors.
5. It is not clear in the Model Bill whether a charge to be created in favour of a bank could cover an existing financial assistance.

6. The Model Bill provides for priorities of charges between the Government, co-operatives including land development banks and commercial banks and generally gives priority to that charge which is prior in point of time. The State Governments, however, usually seek to give priority to the Government claims not merely in respect of land revenue, but also in respect of all such government dues as are recoverable as arrears of land revenue.
7. Concessions regarding stamp duty exemption, etc., being generally more liberal in case of co-operative loans, agricultural borrowers find loans from commercial banks costlier.
8. There is no provision regarding automatic vacation of the charge.
9. The Model Bill does not provide for recovery of an agriculturist's dues from the guarantors through the prescribed authority, with the result that the banks have to proceed against the guarantors separately in civil courts while their applications for recovery of the dues from the principal debtors might be filed with the prescribed authorities.

With a view to remedy this situation arising out of either defective implementation of the Model Bill or non-implementation of the Model Bill by some States the Model Bill itself, Agricultural Finance Corporation Ltd., thinks that there is an urgent and immediate need for some kind of uniformity in the laws passed by State Governments. AFC has, therefore, set up a Committee comprising representatives of Government of India, Planning Commission, Reserve Bank of India and Commercial Banks and list out difficulties experienced by them and make suitable recommendations to overcome these difficulties for the consideration and necessary action on behalf of the Government of India and State Governments.

Source: Paper presented at the seminar on Institutional Finance for integrated Rural Development conducted by the Vaikunth Mehta National Institute of Cooperative Management, Pune during December 27-29, 1979.

THE RESERVE BANK OF INDIA, COOPERATIVE AND
ECONOMIC GROWTH IN RURAL AREAS
(A discussion note)

by A.D. PURANIK

1. The Reserve Bank of India is assigned a very vital role in promoting economic growth in rural areas. It communicates its views and recommendations for implementation of rural development schemes of different types through the Department of Cooperation of each state and the apex level institutions like the State Cooperative Bank as well as the land development bank. The Reserve Bank has chosen these mediums for ensuring action and compliance with its circulars and recommendations. The reason for this is that the cooperative credit structure as well as the non-credit societies are entrusted with the responsibility of organising various economic activities. As a result of subsequent changes in the policy of government commercial banks are also brought into picture for the purpose of initiating the process of economic development in rural areas. Hence, the Reserve Bank has also chosen this medium for initiating action and compliance with its views on rural development programmes.

The Reserve Bank is the bankers' bank. Naturally the government has taken a decision of effecting coordination and regulating its activities in rural areas with the help of this bank.

An attempt is made in this note to throw light on the inadequacy in the government policy of heavy dependence on the Reserve Bank in initiating the process of economic growth in rural areas.

2. The process of economic development or growth is made dependent on the timely and adequate supply of finance to individuals as well as cooperative units in rural areas. Naturally the Reserve Bank in the process of evolution of government policies has been able to arrogate to itself a very high level of competence and wisdom to determine the basic parameters of rural development programmes. Broadly speaking, the Reserve Bank tries to achieve four objectives in this context.

- a) Determination of banking policies and the structure of interest rate of various credit institutions.
- b) Determination of the basic outline of the recovery programme and procedure.
- c) achievement of a particular level of performance on the part of credit supplying institutions with reference to norms of financial discipline as well as the calculations of repaying capacity.

- d) Determination of the basic outline of the policy for ensuring safety of funds and maintaining the confidence of depositors. Implied in this is a well developed procedure of inspection of financial operations of all these institutions.

3. The monopoly position of the cooperative credit structure and the regulatory and promotional role which got assigned to the Reserve Bank has established an inseparable link between the two in rural areas. In addition to it expectations from cooperative organisations based on ideological considerations have also persuaded the government to fulfil them in a satisfactory manner with the help of the Reserve Bank.

It is necessary in this context to make an evaluation of the performance of the Reserve Bank in achieving its objectives of initiating the process of economic growth in rural areas.

4. The entry of commercial banks in rural areas on the ground of uneven spread of cooperative credit structure and the requirements of financial resources in excess of the supply of finance by cooperative credit structure has been treated as a welcome development both by the Government of India and the Reserve Bank. It is assumed that the credit gap could be bridged by the commercial banks to ensure continuity in the implementation of various schemes in rural areas. Keeping the objective in mind the reserve bank has been devoting its attention to introduce orientation in their policies to suit the requirements of rural schemes. In addition to it special guidelines are also issued by the Reserve Bank alongwith several measures (Lead Bank Scheme, Credit Guarantee Scheme, concessional Finance Scheme) to strengthen the operations of commercial banks in rural areas.

5. The existing cooperative credit structure and commercial banks are the two agencies through which the bank finance is to be made available to the farmers. The Reserve Bank tries to regulate the activities of these two agencies in the following manner.

So far as commercial banks are concerned mentioned may be made of the following points.

- a) Commercial banks are not under obligation to earmark a portion of their resources for the weaker sections to meet their loan requirements on priority basis.

- b) The status of "lead bank" is given to commercial banks in every district for enquiring coordination in the loaning policies of various institutions as well as for identifying the areas of development.
- c) Important innovations like farmers service society and rural bank are to be introduced under the direct guidance and supervision of commercial banks.
- d) Most of the ARDC schemes are to be initiated with the help of commercial banks in different parts of country.
- e) The right to reject a loan application by a commercial bank is kept intact in case of commercial banks.

All these points would throw on the pattern of relationship between commercial banks and the Reserve Bank. In contrast to this the cooperative credit structure is directly and more tightly regulated by the Reserve Bank. For instance, the district central cooperative banks have to earmark a 20% of their loan resources for the weaker sections. The district central cooperative banks are also subjected to assessment by the Reserve Bank with reference to the concept of banking norm as well as the concept of diversification of their loan portfolios. The objective behind the Reserve Bank is enable the district central cooperative banks to maximise their earnings by spreading risk of loss over many schemes in the rural areas. Serious objections are also raised by the Reserve Bank in case of non-compliance by the State Cooperative Banks and the District Central Cooperative Banks with various circulars and guidelines. This is in sharp contrast to the approach of the Reserve Bank towards commercial banks.

The difference in the approach as well as treatment has its origin in the assumption that the commercial banks in possession of huge resources have to bridge the credit gap in rural areas. The tacit assumption is also to be noted. The Reserve Bank tends to think that bridging the credit gap would accelerate economic growth in rural areas.

6. Two important points emerge out of the analysis of the difference in the treatment noted out by the Reserve Bank to commercial banks and cooperative credit structure.

- a) The cooperative credit structure is tightly regulated.
- b) The commercial banks are largely left unregulated.

This difference in the treatment appears unconvincing because of the contradiction in the thinking both of the Reserve Bank as well as the government. On the one hand it is stated that co-operatives have experience and better familiarity with the rural environment than the other commercial banks having no satisfactory familiarity with the rural environment are entrusted with greater responsibility in an unregulated manner in initiating the process of economic development. This is entirely due to the assumption that bridging the credit gap is the factor which would promote economic development in rural areas. Another point in this connection is that bridging the credit gap is equated with the need for entrusting greater responsibilities to commercial banks having unsatisfactory familiarity with the rural environment.

Two illustrations would clarify the point.

- a) The innovation of farmers service cooperative society is handed over to the commercial banks for implementation.
- b) The formation of rural banks is also treated as a responsibility of the commercial banks.

These two policy measures clearly indicate a virtual lack of confidence on the part of the Reserve Bank and the Government in the ability of cooperative structure to deliver the goods in this respect. Moreover, the managerial personnel of the commercial banks having no familiarity with rural environment is also treated as very useful in running these institutions. The judgement on this situation would be that the Reserve Bank is having an arbitrary and adhoc approach in this vital sector of rural areas. The decision to transfer some primary societies to commercial banks further confirms virtual lack of grasp of rural areas. The scheme for strengthening the weak central cooperative banks and the decision to transfer primary societies to commercial banks to put the matter bluntly is contradiction of grave nature.

7. Broadly speaking, the approach of the Reserve Bank aims at helping the cooperative credit institutions as well as commercial banks in minimising the chance of financial collapse. The insistence of financial and banking norms and a particular type of recovery procedure prescribed illustrate this point. The assumption on which this approach is based centres round the theory that timely and adequate supply of

finance in a regulated manner is the foundation of economic growth. There is nothing wrong with this assumption by itself. But the general impression that one forms from the thinking of Reserve Bank is that finance is treated as the only important factor either limiting or expanding opportunities for growth. This excessive emphasis on finance is a crucial point in understanding the limitation and inadequacy implied in the approach of Reserve Bank.

So far as the rural area is concerned there are four major points to be considered.

- a) The Government has taken a decision to tackle the problems of weaker sections in a particular manner. For instance, the problems of small farmers and marginal farmers and agricultural labourers have peculiarities not found in case of other categories of farmers. Hence, special administrative measures and financial provisions particularly in the form of various types of subsidies are introduced to enable the cooperative credit structure to provide finance to the weaker sections. In this context one feels that different interpretations are put on the concept of financial discipline and norms of financial operations.
- b) As the Reserve Bank has considerable say in the matter, a continuous conflict and lack of harmony in the operations is experienced in the implementation of various schemes. For instance, the Government largely thinks in terms of quick supply of finance, while the Reserve Bank thinks in terms of disciplined supply of finance with reference to its norms.

At the grass root level governmental agencies are helpless in getting the schemes started as per schedule largely because of the lack of uniformity and coherence in understanding of the concept of financial and banking norms. A complaint by the government officer in charge of the implementation of the scheme either got solved or diluted when discussion between the Reserve Bank Officers and government officers at the higher level takes place. This leads to considerably delay even in starting a scheme.

c) The delay in sanctioning the loans either by the district central cooperative bank, land development bank or a branch of nationalised banks results in retarding the prospects of improvement of income position of the weaker sections. One comes across a disturbing point in the discussions with officers and non-officials of cooperative credit institutions. For instance, some times a loan application is rejected on the ground of non-feasibility of a particular scheme. This is largely due to poor infrastructural facility made available to the weaker sections in rural areas. The Reserve Bank while insisting on observance of financial norms has never been able to persuade the government to create infrastructural facilities for the weaker sections on urgent basis. The result of this situation is disturbing. It becomes difficult for the cooperative credit structure to sanction a loan because of the compulsion of strict adherence to the circulars of Reserve Bank.

As the rural development schemes have their own logic of operations the Reserve Bank actually comes in the way of their progress. For many rural development schemes in narrow banking concepts of urban oriented nature cannot be applied. Hence it is wrong to expect the Reserve Bank to initiate the process of economic growth in rural areas as per schedule prepared by the governmental departments.

The Reserve Bank is also expected to help the state level governments in implementing their tribal development programmes. The unique peculiarities of the tribal economy have to be taken into account both by the government as well as the Reserve Bank. In this context it is felt that the requirements of consumption finance of tribals as well as the great flexibility of operations by money-lenders are not properly considered by the Reserve Bank. The type of flexibility that is required for creating the cooperative credit structure as an effective alternative to the institution of money-lenders and traders can never be achieved if the Reserve Bank sticks to mechanical adherence to financial norms. The type of special concessions and flexibility approved by the Reserve Bank cannot be said even to touch the fringe of the problems faced by the tribals. A committee on consumption finance has made certain recommendations. These recommendations have not been adequately appreciated both by the Department of Cooperation and Reserve Bank. For instance, the field survey conducted by the Vaikunth Mehta National Institute of Cooperative Management under the guidance of Dr. G.Ojha on behalf of the State Cooperative Bank of Maharashtra has revealed the total lack of special involvement on the part of the Reserve Bank in this vital problem of tribal supply, there is

no specific guidelines of commital nature issued by the Reserve Bank in this regard. On the contrary it is largely left to the cooperative credit structure for implementation.

9. The problems of under-developed regions in India are unique in character. Improper diversification of agriculture and exclusive dependence on one-crop economy are some of the problems which are large enough to be outside the narrow thinking of the Reserve Bank which insist on observance of conventional banking norms. The number of variables resisting the schemes for improving the rural economy is very large. The Reserve Bank circulars just do not reflect even in the marginal manner the complexity of the problem. Hence, it is better that the government evolves its own norms of work and reduce its unjustifiable dependence on the Reserve Bank in this respect.

10. At present finance is supplied with a view to enable the farmers to purchase types of assets. Insurance of these assets is of paramount importance in helping the farmers to have continuity in their economic operations. The Reserve Bank is remarkably silent on the implications of this aspect. The insurance schemes developed by government and other bodies think in terms of paying compensation to the farmers in case of the destruction or death of its assets. It is necessary to work out a scheme of replacement of assets. The Reserve Bank cannot contribute substantially to the evolution of this type of scheme. Had it been so, the economists in the Reserve Bank would have long back considered this problem and offered solutions. This is a major lacuna in the approach of the Reserve Bank.

In the light of this analysis it would be clear why Reserve Bank will not be a suitable agency for initiating the process of economic growth in rural areas. It is necessary that the government takes the decision to wind up its role in rural areas because of its inability to go beyond the limited thinking of financial and banking norms. It is necessary that the government and the cooperative credit structure together develop a new approach towards rural development schemes. All the variables which upsets the government schemes can be adequately controlled if the shadow of narrow banking norms is removed from the rural areas. The huge resources of commercial banks having no familiarity with the rural areas can be channelised through cooperative institutions under the supervisions of government. Hence, both the Reserve Bank as well as the commercial banks should be delinked from the process of economic development. A proper multidisciplinary approach would go a long way in helping the rural areas.

SOURCE:- Paper presented at the Seminar on Institutional Finance for Integrated Rural Development conducted by the Vaikunth Mehta National Institute of Cooperative Management, Pune, during December 27-29, 1979.

Integrated rural-urban development

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BEFORE we start talking about a national policy for integrated rural-urban development, it is necessary to have a clear idea of what is meant by 'integrated development'.

Development has several objectives. One is the maximisation of production by optimum utilisation of natural resources, labour and capital, and increase in productive efficiency through better management and technical skills. This is what may be called the 'growth' objective of development. Then there is the aim of maximising employment to secure which both the productive forces and the consumer demand pattern have to undergo appropriate changes. Then there is the object of social justice which requires the minimisation of levels of inequality between social classes, rural and urban areas and populations, regional areas, priority development of backward classes and backward regions, and abolition of mass poverty or bringing up the population below the poverty line to above the poverty line.

Then there is the objective, which is closely allied to the social-justice objective, of bringing about forward and backward linkages between settlements of population by different sizes and establishing a continuous rather than dichotomous relationship between them. This may be called the spatial objective of development.

Finally, there is the objective of improvement of the quality of life which depends not only on material production, occupational diversification and distribution of product, but also on social and welfare services, developmental participation, and imperious and non-quantifiable factors such as

Based on author's address at the All-India Institute of Local-self Government Bombay (May 1980).

frustration, and satisfaction, helplessness and self-reliance, which also make a significant contribution to the quality of life.

We may sum up these major objectives of development, all of which have been accepted by the Government of India and its planners, under the following heads: (1) Growth. (2) Employment. (3) Social justice. (4) Spatial coordination. (5) Quality of life.

Integrated development means development that takes into account all these objectives and tries to integrate and link them together through the plans, programmes and policies that are followed for the promotion of development.

In the context of this interpretation, we may take a brief look at the rural and urban development that has taken place in the country; what policy, if any, there has been behind this development, to what extent there has been integration within either rural or urban development, and finally whether there has been any policy of integrating rural and urban development.

Rural development

TAKING rural development first, there is no doubt that substantial results have been achieved in terms of increase in agricultural production and productivity. This is seen from the following table which gives the index numbers of area under agricultural crops, agricultural production and productivity between 1950-51 and 1973-74 with base 1959-60 to 1961-72 : 100.

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been that the increase in the area of both production and productivity and that increase in area has been more than the increase in the production of non-foodgrains than in the case of foodgrains. This is especially so in the case of oilseeds, while in the case of pulses, there is an actual decline in productivity. There has been a phenomenal increase in the investment on irrigation and power and in the input of water, pumpsets, fertilisers, high-yielding varieties, and agricultural extension services, the bulk of which has been directed to cereals. That this has not resulted in an integrated

development in productivity is seen from the latest available data on yield per hectare of five major crops for the period 1975-76 to 1977-78, as can be seen from Table 2.

That the proportion of the rural population below the poverty line has not declined in spite of the massive increase that has taken place in agricultural production indicates that rural development has not been integrated as between income groups and in terms of distribution. This is seen from Table 3 taken from the Dubhashi Memorial Lecture delivered by this writer in January 1978 under the auspices of the University of Poona.

TABLE 1

Crops	Area		Production		Productivity	
	1950-51	1973-74	1950-51	1973-74	1950-51	1973-74
Cereals	85.2	112.3	66.2	138.2	76.7	121.4
Pulses	75.6	96.8	76.4	82.5	97.7	87.3
Foodgrains	83.2	108.8	67.4	131.5	79.1	117.9
Oilseeds	76.1	107.6	74.3	130.8	103.0	114.8
Fibres	76.7	99.6	65.4	129.0	86.4	127.4
Plantation crops	79.8	134.4	78.6	153.6	85.5	129.9
Miscellaneous crops	75.6	120.1	69.3	138.8	91.6	116.8
Non-food crops	77.2	110.8	72.2	137.1	93.5	115.6
All commodities	82.0	101.4	68.9	133.4	83.2	117.1

Source: Tables 1-19 to 1-21, 15th edition of *Indian Agriculture in Brief*.

TABLE 2
Yield of selected crops (state-wise)

States	Yield per hectare				
	Rice	Wheat	Groundnut	Cotton	Sugarcane
Andhra Pradesh	1,515	703	777	125	8,000
Assam	989	1,149	—	79	3,554
Bihar	936	1,266	969	438	3,510
Gujarat	1,284	1,642	1,032	167	5,578
Haryana	2,396	2,038	1,112	316	4,422
Himachal Pradesh	1,239	928	1,055	138	1,556
Jammu & Kashmir	1,575	851	—	152	811
Karnataka	1,851	667	600	166	7,275
Kerala	1,308	—	1,128	231	5,550
Madhya Pradesh	793	821	673	75	3,068
Maharashtra	1,501	881	707	72	10,022
Orissa	896	1,737	1,167	197	6,255
Punjab	2,887	2,449	983	351	5,455
Rajasthan	1,353	1,333	664	212	4,378
Tamil Nadu	2,038	385	1,053	227	10,935
Uttar Pradesh	937	1,397	694	93	4,454
West Bengal	1,267	2,062	—	136	6,044
All-India	1,215	1,425	844	146	5,542

TABLE 3

Based on poverty norm formulated by Pandekar and Rath :
Percentage distribution of estimated number of rural households below the poverty line of Rs. 15 in 1960-61 and Rs. 42.5 in 1973-74.

State	1960-61	1973-74
Andhra Pradesh	42.32	43.29
Assam	11.83	32.09
Bihar	33.55	35.45
Gujarat	20.43	31.97
Haryana	—	20.74
Himachal Pradesh	—	11.46
Jammu & Kashmir	17.81	32.69
Karnataka	33.22	42.94
Kerala	52.55	38.50

State	1960-61	1973-74
Madhya Pradesh	42.69	44.69
Maharashtra	36.85	40.19
Orissa	60.54	59.88
Punjab	11.56	12.48
Rajasthan	28.39	26.35
Tamil Nadu	39.59	46.10
Uttar Pradesh	35.76	40.11
West Bengal	22.23	53.88
All-India	34.73	40.56

Punjab included Haryana and large parts of Himachal Pradesh in 1960-61. Karnataka in 1973-74 was practically identical with Mysore in 1960-61. Madras in 1960-61 was practically identical with Tamil Nadu in 1973-74.

THAT rural development has not led to integration between production and employment is also seen from the massive figure of the estimated number of rural unemployed and under-employed in 1970 and its increase in 1977-78 as can be seen from Table 4 :

TABLE 4
(Figures in millions)

Category	1970-71	1977-78
Unemployed throughout the year	1.73	2.09
Unemployed throughout the week	7.04	8.15
Unemployed part of the week	14.21	16.47

That rural development has not been integrated in terms of the quality of life is again evident from the new stress now being laid on basic minimum needs and the lack of potable drinking water facilities in 123,000 villages out of India's 576,000 villages and is borne out by the steady drift of people from rural to urban areas.

There is no doubt that by and large the accent in rural development has only been on production and not integrated with the other development objectives which are set out in the Plan documents beginning from the First Plan which came into operation nearly 30 years back.

Urban development

WHEN we turn to urban development, we find substantial results achieved in terms of increase in the production of non-agricultural goods and services, though one cannot point to a similar increase in productivity as has been the case with agriculture. Thus the general index of industrial production has increased from 100 in 1951 to 170 in 1960. Between 1960 and 1970, it has increased from 100 in 1960 to 181 in 1970, and between 1970 and 1978, from 100 in 1970 to 148 in 1978. There has also been a very substantial increase in the service sector which is largely located in the urban areas. But this increase in production has not been accompanied by appropriate implementation of the other developmental objectives. Thus there has been a significant increase in the estimated number of unemployed and under-employed in the urban areas as can be seen from the following table :

TABLE 5
(Figures in millions)

Category	1970-71	1977-78
Unemployed throughout the year	1.88	2.37
Unemployed throughout the week	2.41	3.04
Unemployed part of the week	3.24	4.09

In terms of percentage of the total working force, these percentages are higher for the urban areas than for the rural areas. Another indication of urban un-

employment, which presents an even more dismal picture can be obtained from the number of persons who are applicants on the live register of the Employment Exchanges. Even if we concede the presence of a purely statistical element in the time series because of the establishment of more employment exchanges and greater awareness of the facility on the part of employment-seekers and also make the assumption (based on special studies conducted by the Planning Commission and the Directorate-General of Employment) that only 50 per cent of the applicants are actually unemployed, the figures given below of registrations, placements, and educated job-seekers clearly indicate the failure of urban development to solve the problem of urban unemployment.

The effect of this failure to deal with growing urban unemployment is also reflected in the higher and increasing levels of population percentage below the poverty line in urban areas, widening and growing student and youth unrest, and increasing deterioration in the law and order situation.

URBAN development has taken on an even more unbalanced form than rural development as can be seen from the high proportion and the higher rates of growth of the big metropolitan centres and larger cities, and the lower proportion and the lower rate of growth of the small and medium towns with an actual decline in absolute terms in the case of towns with population below 10,000.

As pointed out by Dandekar and Rath in their pioneering study on Indian poverty, the incidence of poverty is higher in urban areas with the urban population showing a higher percentage below the poverty line than in rural areas. And this tendency has been growing since 1961 to which year their study referred. While I have not yet made a study of the trends in urban poverty, on the lines I have made for rural poverty, indirect evidence is available of the higher growth of the poor in the urban areas from NSS data on urban consumption expenditure. Urban development has not certainly integrated with growth the other components of development such as employment, and social justice including the orderly growth of urban areas by population size and the creation of a continuation among them.

It is also evident that the quality of life for the common man in urban areas leaves much to be desired. Thus, at the beginning of the Sixth Plan, that is, 1978-79, 17 per cent of the urban population in 1029 towns out of a total of 3121 towns in the country did not have protected water supply. Besides, the water supply schemes in many towns, even where installed, are in need of improvement and expansion. Only 198

towns have sewerage facility, most of which, however, have it only partially; the population served being only about 27 per cent of the urban population. And the problem of collection and disposal of solid wastes has been increasing in the urban areas at an alarming rate, particularly in cities with large population. Slums have been growing fast in the urban areas, especially in the big cities and towns, the estimates of the Planning Commission placing the slum-dwellers at nearly one-fifth of the total population and having projected to

development and this also involves spatial considerations, we may look at the size classification of settlements by size in urban areas, rural areas, and in the country as a whole. The following table gives their percentage to the relevant population of each size class of human settlements in the country in 1971.

It will be seen that while only 0.5 per cent of the urban population lives in settlement of population size below 5000, the corresponding figure for the rural

TABLE 6
(Figures in '000)

Year	Registration	Placements	Total applicants on live registers	No. of educated job-seekers		
				Matriculates	Undergraduates	Graduates and above
1961	3230	404	1833	464	70	56
1966	3871	507	2622	619	204	94
1976	5619	497	9784	2829	1255	1020
1977	5325	462	10924	3083	1472	1179
1978	6143	462	12678	3515	1613	1349

TABLE 7

Population size	urban % of total urban population	Population size	Rural % of total rural population	Population size	Total % of total population
Less than 5000	0.5	Less than 500	16.4	Less than 500	13.12
5000-9999	4.7	500-999	21.5	500-999	17.23
10000-19999	11.3	1000-1999	25.8	1000-1999	20.64
20000-49999	16.3	2000-4999	23.8	2000-4999	19.23
50000-99999	11.4	5000-9999	7.5	5000-9999	7.10
100000 & above	55.8	10000 & above	5.1	10000-19999	6.62
				20000-49999	3.64
				50000-99999	2.68
				100000 & above	9.74

number around 36 million by 1981.

Power breakdowns and water shortages are now becoming a common feature of the urban life-style. In fact, while a minority of the urban population does have in fact the good life-style supposed to accompany urbanisation, the majority have a life-style which is compounded of the worst features of urbanisation, and the quality of life of the urban poor is even worse than that of their rural brethren.

Integration in development

THUS there has been no integration in development either in urban or rural areas and the development objectives remain unconnected organically or even programme-wise.

Integration relates to natural resources, human resources and the spatial factor. As we are going to deal with a policy for integrating rural and urban

population is 87.4 per cent. Taking the rural and urban population together, the percentage is 70.2. Rural population in settlements of population size above 10,000 is only 5.1 per cent, while the corresponding figure for the urban population is 94.8 per cent. Taking the rural and urban population together, the percentage is 22.7. It is certainly a gigantic, if not an almost impossible task, to bring about integration in the development of settlements of such vastly varying magnitudes of population size. One can only think in terms of some kind of a continuum, but even this is difficult, for, taking the urban and rural population together, the lowest four categories with population below 5,000 account for 70.2 per cent, while the highest category with population above 1,00,000 accounts for as little as 9.7 per cent. In the case of rural areas, the lowest three categories with population below 2,000 account for 63.7 per cent, while the two highest categories with population above 5,000 account for only 12.6 per cent. In the case of urban areas, the lowest

three categories with population below 20,000 account for only 16.5 per cent, while the highest category with population above 1,00,000 accounts for as much as 55.8 per cent. It is clear that even if we visualise a continuum among the settlements of different population sizes, it will be necessary to plan for a sharp reduction in the lowest of categories in the case of the rural population and of the highest categories in the case of the urban population. This is certainly not an easy proposition to implement.

THE PROBLEM of integration has also to be faced in terms of the occupational distribution of the rural and urban population in the country. Table 8 gives the percentage distribution of urban and rural male workers in 1971 (women workers are not taken into account because of the change in census definition of worker between 1961 and 1971 which primarily affected the statistics of women workers in 1971) by broad occupational categories.

TABLE 8
(Figures are in percentage in total male workers)

Category	Rural	Urban
Agriculture & allied activities	83.7	11.5
Manufacturing & processing including mining	5.9	29.4
Construction	0.8	3.6
Trade and commerce	2.7	21.4
Transport and storage and communication	0.9	10.8
Other services	5.6	23.3

TABLE 9

Population size	Agriculture & allied activities	Mining	Manufacturing	Construction	Trade and commerce	Transport, storage and communication	Other services
Less than 5,000	27.72	4.82	14.60	6.03	15.34	6.90	27.59
5,000-9,999	30.10	1.90	19.28	3.22	18.47	6.13	20.90
10,000-19,999	29.24	0.90	19.22	3.51	19.96	7.30	19.87
20,000-49,999	19.43	1.90	21.95	3.90	21.61	9.65	21.56
50,000-99,999	12.34	1.00	24.33	3.48	23.62	10.74	24.41
1,00,000 & above	4.26	0.68	33.47	3.51	21.50	12.18	24.40

TABLE 10
Male Workers—1971

Population size	Agriculture & allied activities	Mining	Manufacturing	Construction	Trade and commerce	Transport, storage and communication	Other services
Less than 250	92.25	0.66	2.47	0.16	0.54	0.16	2.08
250-499	93.94	0.45	3.43	0.22	0.75	0.13	2.37
500-999	91.87	0.13	2.54	1.00	1.14	0.41	2.96
1,000-1,999	84.34	0.39	6.52	1.36	2.11	0.72	4.56
2,000 and over	66.71	0.27	8.93	3.78	6.55	2.61	11.19
Total	86.66	0.80	4.47	1.29	2.05	0.73	4.39

The occupational distribution of the urban population in 1971 by categories of population size is given in Table 9. I have not been able to lay my hands on similar figures for the rural population. But I have computed similar figures for 245 sample villages in Tumkur District of Karnataka State where an intensive survey has been carried out during the last three years. These figures are given in Table 10.

It will be seen that there is some continuum between the urban settlements with population below 5,000 and rural settlements with population above 2,000 in the Tumkur sample villages if we take the broad categories of primary, secondary and tertiary activities as can be seen from Table 11.

In fact, rural settlements with population size of about 5,000 have a larger urban occupational pattern than the smaller villages, while urban settlements of size below 5,000 have a large rural pattern than the larger towns and cities. This gives credibility to the possibility of integration between urban and rural settlements with a population size of about 5,000.

WE CAN now turn to the subject of rural-urban relations and the dichotomy that has developed between these two sectors as a result of or in spite of the development we have had during the last 30 years. The report of the Rural-Urban Relationship Committee appointed by the Health Ministry of the Government of India has this to say on the subject (June 1966) :

TABLE 11
Percentage of total male workers

Category	Primary	Secondary	Tertiary
Urban settlements (Population below 5,000)	29.5	20.6	49.9
Rural settlements (Population above 2,000)	67.0	12.7	20.3

"In this country, thinking on this subject has unfortunately been both scarce and halting, and certainly very often stereotyped. In affluent societies, however, considerable thought has been and is being given to eliminate the difference to the approach towards the rural and the urban areas and there is a general desire to treat the two as integral parts of one organism requiring equal attention rather than as two distinct entities. It is necessary therefore to develop a sound course of action which will progressively eliminate the existing differences in approach and treatment". They proceeded to state: "The sociologist today looks upon urbanisation as a continuous process of transition from rural to urban, treating the present differences as only a stage in the continuum. This is very much true of the advanced Western countries, where the impact of technology has made the distance between the urban and the rural very much narrower. In India, however, the gap between town and country is still very wide".

A somewhat different point of view was put forward by R. P. Misra and B. S. Bhooshan in the critical paper they submitted on the results of the famous Vancouver Conference on the emerging problems of the human habitat. They pointed out that both the developed and developing countries appeared to have come to the conclusion that the future of man lies in 'urbanisation' and 'industrialisation' and considered 'rural' to be something in the process of being phased out and if there was any problem it was only transitional and requiring a clinical approach. They contended that this urban image of the human habitat reflected the present thinking of planners, social scientists, technologists and administrators in developed and developing countries alike, the former because they are the products of twentieth century urbanisation and the latter because they are convinced of the efficacy of the Western model of urbanisation for their own societies. The authors referred to the dissatisfaction with the Vancouver thesis of spokesmen of the billions of people residing in millions of tiny villages in Asia, Africa and Latin America who wanted a rural view of the habitat and a development model that would be less technocratic, hyper-urban and dehumanised; neither hyper-urban nor hyper-rural but a combination of what constitutes rural and urban today, what may be termed as a *RURBAN* model.

ELABORATING on this alternative model of human settlement, they pointed out that it must be an organic one, so that elements like technology, production, infrastructure, shelter, family, community social services, governance, etc., work in unison and do not go haywire. Further, they must work within the limits set by the corresponding demographic production, resource, social technological and administrative systems, all of which must be integrated vertically as well horizontally. I would draw particular attention to the need for stressing the horizontal factor in integration, a point to which I shall revert later.

What is clear is that elimination or even minimisation of the rural-urban dichotomy and the establishment of healthy and mutually satisfactory rural-urban relations cannot be accomplished by the elimination of the rural habitat and the 'rural' has to get a much higher place and priority in the developmental process than has been the case in the past and certainly so for a country like India. India's future cannot rest on the kind of human settlement pattern we have at present in the rural or in the urban sector; and a balance has to be found between the tiny and the gigantic in the rural-urban settlement pattern with all their accompanying attributes and on the basis of mutual dependence and the development of an organic and healthy system of mutual relations between rural and urban development.

THE SHEER necessity of averting the disaster that stares the country in the face from the unplanned, uncoordinated and unbalanced rural-urban development that we have had in the past will compel us to seek a solution to the current dichotomy in rural-urban development and the consequent disharmony in rural-urban relations. As pointed out in the Fourth Plan Report, "the social and economic costs of servicing large concentrations of population are prohibitive, and beyond a certain limit unit costs of providing utilities and services increase rapidly with increase in the size of cities. In the ultimate analysis, the problem is that of planning the spatial location of economic activity throughout the country". One may add that increasing spatial concentration of population not only leads to a prohibitive rise in the costs of meeting their requirements of essential services but also to rising problems of law and order, environmental pollution, unemployment, over-crowding, slums and a general deterioration in the quality of life not only for the many poor but also for the minority that constitutes the affluent section. In fact, unbalanced and non-integrated rural and urban development breaks down the rural-urban dichotomy, but in the wrong direction, swelling rural emigration

and urban immigration and adding to urban unemployment, slum proliferation, and poverty, without reducing rural unemployment or rural poverty.

The rural rich may be increasing in number, but the rural poor are increasing faster and they are now spilling over into the urban areas and adding to urban poverty. Poverty knows no barrier, and once the rural poor and the urban poor combine, the rural-urban dichotomy will have to go. But its departure will be accompanied by unrest and violence that may well threaten the integrity of the country and bring about a national disaster of such dimensions as will embrace within its scope not only the few rich but also the many poor.

This is the case for a national policy for integrated rural and urban development. Even if all that we can do is some talking, thinking and discussing on the subject, it would be a worthwhile effort. At least it can mark a beginning in the right direction.

State of awareness for integration

HAS there been awareness in the Planning Commission or elsewhere of the need for integrating rural and urban development and has it led to any policy formulation on the subject, though there has been no such integration in fact?

The Committee on Rural-Urban Relations, which reported in 1966, said that "the maintenance of the anonymity between the rural and the urban creates disharmonies, conflicts and maladjustments and thus acts as a barrier to social cohesion and the development of an integrated human personality" and opined that the gap between the rural and the urban tends to be narrowed down as the standard of living improves and social change takes place.

While there has been only sporadic references to rural-urban relation in the First and Second Plan documents, the Third Plan Report had chapters on 'Balanced Regional Development' and 'Housing and Urban and Rural Planning'. Referring to urbanisation as an important aspect of the process of social and economic development, they pointed out that "it is closely connected with many other problems such as migration from villages to towns, levels of living in urban and rural areas, relative costs of providing economic and social services in towns of varying sizes, provision of housing for different sections of the population, provision of facilities like water supply, sanitation, transport and power, pattern of economic development, location and dispersal of industries, civil administration, fiscal policies, and the planning of land use."

An article in the journal *Rural Sociology* (March 1, 1966) referred to the view that a simple rural-urban dichotomy is inadequate and should be substituted by what is called a 'rural-urban' continuum but added that urbanisation in India is not showing the characteristic features of modern urbanisation in the Western countries. "Illustrative of the contrasts are the following features of Indian urbanisation: the relatively small accumulation of Indian capital, the unorganised nature of the enterprises in the cities, and the lack of opportunities for social mobility for the people involved".

The Fourth Plan referred at length to the need for redressing inter-State and intra-State imbalances in development which included by implication the rural-urban problem as well. A working group it appointed on urban development stressed the need to provide a suitable physical base at both regional and local levels for the increasing tempo of economic activities and suggested that urban expansion and development should be conceived for each area in a total way, integrating the different sectoral programmes and assessing their interactions and the consequences of such interaction. They suggested area-wise studies that would help build up a region-wise physical development pattern to include both urban and rural areas.

The Draft Fifth Plan (1974-79), while recognising that the rising trend in urbanisation is likely to continue over the perspective period, stressed the need for slowing down the rate of urban growth. An important factor contributing to the faster growth of urban population was migration from the rural areas. Apart, therefore, from taking steps to achieve the postulated decline in the birth-rate and thus slowing down the natural increase in both urban and rural population, it was necessary to prevent an accelerated exodus from the rural areas to the towns. The Commission then went on to state: "This underlines the need for significant improvement in the living condition of those strata of the rural population who have the weakest links with the village, namely rural artisans, agricultural workers and marginal farmers, as also for improvement in the general quality of rural life. It is only through minimising the extent of the differential in terms of living conditions between town and country that the process of migration towards the cities may be stabilised at a level which may not require an undue amount of investment for providing urban infra-structural facilities".

Thus, improvement of rural living conditions and employment and increased earning capacity for both the agricultural and the non-agricultural poor became a necessary condition for slowing down urban growth

and enabling the urban areas to have both developmental and welfare facilities and an improvement in the quality of life. It was for this purpose that a National Programme of Minimum Needs was incorporated in the Fifth Plan. A frontal attack was to be mounted on the inadequacy of social consumption and living standards by locating adequate resources in all areas, irrespective of the resource constraints of States and aiming at establishing throughout the country a net-work of certain essential services on a coordinated and integrated basis with some pre-determined criteria of uniformity and equality. It was anticipated that such integrated planning, along with careful implementation of the National Programme of Minimum Needs, would go a long way in establishing a healthy environment for well-being and growth and also create a feeling of participation in national development among all sections.

For increasing productive capability in the rural areas and promoting equitable distribution of the benefits of development, the National Commission on Agriculture had recommended the adoption of a whole village approach to development for harnessing the growth potential of the villages, and outlined a programme. The Planning Commission decided to have the programme taken up initially on a pilot basis in four States — Bihar (23), Orissa (6), Tamil Nadu (4), and U.P. (4). The whole-village development scheme was the harbinger of the integrated rural development scheme which was taken up in the next Plan. The Draft Fifth Plan also had the objective of raising substantially the per capita consumption of the lowest 30 per cent of the rural population. For this purpose, a reorientation of the general programmes of agricultural development was to be made so as to enable the mass of small and marginal farmers and agricultural labourers to benefit from them, building up elements of special assistance to small farmers in area development programmes like Command area and drought-prone area programmes, and intensification and enhancement of special programmes specifically designed for the weaker sections and the weaker areas in the agricultural economy.

The Draft Five-Year Plan for 1978-83 recommended area planning for integrated rural development and specific programmes of direct transfers of basic services to target population groups belonging to the weaker sections, in the programme for the provision of minimum needs. This Draft Plan makes integrated rural development the strategy for rural development for the purpose of integrating various programmes and establishing appropriate linkages for optimal utilisation of local endowments consistent with the Plan objectives, local needs and environmental balance. The new approach will pay special

attention to development of the secondary and tertiary sectors in the rural areas and set out a list of nine programmes, including those relating to agricultural and animal husbandry development, to be integrated for the purpose of rural development. This Report showed specific awareness of the need for integrating rural and urban development for the first time in Plan documentation.

THE REPORT concedes the role of urbanisation as 'a necessary component of economic development' for the provision of a variety of centralised services for the surrounding rural areas, but does not favour any further growth of the large cities and metropolitan centres, and adds: "The thrust of the urbanisation policy during the next decade must therefore be to slow down, and if possible reverse, the rate of growth of the metropolitan centres and increase the rate of growth of the small and medium towns." The Commission proposed to do this by giving greater emphasis to the provision of infrastructural facilities to these small towns and equip them to act as growth and service centres for the rural hinterland. However, "adequate support will also have to be given to the larger cities directed specifically towards improving the conditions of the urban poor and raising civic services upto acceptable levels."

The revised version of the Draft Fifth Plan, 1978-83, now called the Draft Sixth Plan for the same period, repeated the thesis that planned urbanisation is a necessary component of the infrastructure of economic development and explained the increase in urban population at a faster rate than the provision of this infrastructure as being "mainly because of the low living standards of a large proportion of the rural population who migrate to the towns in search of livelihood." But this migration did not swell the population of the small and medium towns which had decayed not only relatively but also absolutely. In fact, they mainly wended their way to the larger cities and the metropolitan centres. The commission explained this phenomenon as largely due to the fact that there had been few employment opportunities available to rural migrants in areas between the villages and the big cities. The Commission wanted a scheme of planned urbanisation entailing policies and programmes that would mitigate the 'push' factor of the rural areas and simultaneously check the 'pull' factor of the large cities and towns. Here was clear evidence of recognition by the Commission of the need for a national policy for integrated urban and rural development. This is underlined by what it has said in the same and subsequent paragraphs.

ANOTHER aspect of the rural-urban dichotomy, to which the Commission has drawn attention, is that the share of agriculture in the work force has not diminished at all over the last 50 years. I had made a pointed reference to this fact in the Bhalkhal Memorial Lecture in Bombay in 1979 — to the failure of the occupational pattern to conform to the changing sectoral outputs to the NDP during the Plan periods and particularly to the declining share of the agricultural sector in the NDP not having brought about a decline of its share in labour force as 'constituting both the problem and the paradox of Indian economic development'.

It is good that the Planning Commission has not only recognised this structural retrogression in the Indian economy but has also shown awareness of the fact that "a relative shift in the allocation of resources to agriculture as provided in the draft plan may reinforce this position unless there is also a plan to bring about reduction in this share of the work force through proper organisation policy. It has added: "The share of the labour force in agriculture should be brought down and this can be achieved only by having a long-term strategy of creating a new balance between agriculture and industry on the one hand and urban development and rural development on the other." Whether this should lead to the creation of new urban areas as the Commission suggests or to the creation of larger and more productive non-agricultural employment and earning opportunities in the rural areas as I have been suggesting so long is a moot question.

THE Commission has therefore reiterated the view that the thrust of urbanisation policy during the next decade must be to increase the rate of growth of small and medium towns and to slow down and if possible reverse the rate of growth of the metropolitan cities. And to do this it has suggested a policy of industrialisation that would direct it to small and medium towns and new urban centres and encourage the growth of household and cottage industries in the rural areas. All this however is not anything new in the formulated planning strategy. The Third Plan document had referred to urbanisation as an important aspect of the process of economic and social development and pointed out how it was closely connected with many other problems relating to rural and urban development. It had laid down the broad objective of development policy as the securing of balanced development between large, medium and small industries and between rural and urban areas. It had also laid down the following as the main ingredients of such a developmental policy:

(1) New industries to be established away from large and congested cities; (2) introduction of the concept of region in the planning of industries, planning extending beyond the immediate environs to a larger area for whose development the new industry would serve as a major focal point; (3) in community development projects or other areas within a district, the rural and urban components of development should be knit into a composite plan based in each case on schemes for strengthening inter-dependence between towns and the surrounding rural areas; and (4) within each rural area the effort should be to secure a diversified occupational pattern in place of the present extreme dependence on agriculture.

THE Fourth Plan document had also referred to this question of rural-urban dichotomy by stating that "in the ultimate analysis, the problem is that of planning the spatial location of economic activity throughout the country". The latest Planning document released early this year has done no more than affirm what had been stated earlier, in spite of the fact that nothing significant in the direction suggested by the previous Planning Commission had actually been achieved during the last two decades. The only difference is the clearer and more explicit enunciation of a policy on integrated rural and urban development and the spelling out of somewhat more concrete policies and programmes. It may be worth noting the Commission's opinion that "in the final analysis, the pace of urbanisation will come down to the desired levels only when the income levels and quality of life of the bulk of the rural population reaches acceptable levels" and that, therefore, "the basic approach to tackling the problems of urbanisation in the next decade will be to accelerate the tempo of rural development so that the problems of excessive migration to the cities can be kept in check."

THE PLANNING COMMISSION has thus formulated a national policy for integrated rural and urban development. The *raison d'être* behind the policy has been not so much an independent and positive concern for the rural areas and the rural population as the grave concern with the menacing consequences of the kind of urbanisation that has been taking place during the last few decades and the need for arresting the flow of rural migrants to the larger towns, cities and metropolitan centres. To the politician, who is always in quest of votes, improvement in the quality of rural life and expansion of rural employment opportunities make integrated rural development an attractive programme in itself; but to the planner it is essentially a step for dealing

with the problem of urbanisation which incidentally has led him to adopt a nation-wide spatial approach to planning and go in for a national policy of integrating rural and urban development. Basic needs, rural industrialisation, priority attention to the growth of small and medium towns, deterrents to the growth of large towns and cities, and decentralisation in planning along with local participation in the developmental process, are all components of the proposed national policy of integrated rural and urban development.

ALL THIS is also in conformity with the conclusions arrived at in the seminar held by the UN Centre for Regional Development in Japan in October-November 1974 on 'Urban Development Strategies in the Context of Regional Development'. These conclusions made specific mention of the relevance of the rural sector in urban development in the following terms :

"In considering urban development strategies, the role of the city system in mobilising the rural sector could not be ignored. In fact, urban strategies must be properly integrated with and made complementary to rural development strategies. It was felt that the success of an urban development strategy, by and large, depended on the maintenance of healthy and balanced rural-urban relations. The basic source of the problem in urban development process is the inconsistency between the amount of population influx from the rural areas and the absorption capacity of urban areas. This inconsistency may manifest itself in an 'over-grown informal sector' which is reflected in the growth of squatter settlements, increased urban unemployment, deterioration of urban public services, and all the dysfunctional aspects of overconcentration in primate cities. The crux of the strategy for increasing the economic viability of the rural areas would be the provision of the essential minimum needs of the rural population. However, spreading social services in the rural areas alone would not be enough; a comprehensive strategy of rural development to strengthen the economic base of the countryside is needed. Thus not only the provision of the necessary rural infrastructure but also dispersal of industries in the rural areas becomes crucial, in terms of both import and/or export substitutes."

THIS basic need for linking urban with rural development and vice versa has also been recognised by individual specialists in regional planning. Thus, R. P. Misra and K. V. Sundaram have affirmed that "the

rural is inextricably linked with the urban and vice versa, and any attempt to isolate one from the other is not only unrealistic but also disastrous." Norton Geinsberg in his paper on 'China's Development Strategies' has pointed to the shift of emphasis in that country from the national project to the local and provincial and cited as an instance the policy of attacking environmental, sanitation and health problems where they mattered the most, that is, where most of the people lived, in the countryside. He also mentioned that the Chinese policy of 'walking on two legs' now included development of industry at the commune and country level—small industry supporting agriculture on the one hand and using agricultural production and natural resources as raw materials on the other. Benjamin Fisher, in his paper on 'Growth Centres Planning in India' refers to the need for growth centres giving up industrialisation as the primary strategy of national regional development, giving a larger place to small rather than big centres and going in for decentralised concentration in small growth foci. He adds : "The ideal spatial structure to be sought by growth centre planners of the future will minimise urban-rural or co-peripheral dualism and focus on 'agro-urban centres' and develop 'agropolitan' approaches to regional development, as suggested by Friedmann." Mishra, Sundaram and Prakash Rao reject the central place theory, the growth pole hypothesis and the spatial diffusion theory as the desired strategy for regional development, and instead put forward the concept of growth foci derived from all these theories and having dynamism, relevance to regional planning in all contexts and an in-built mechanism for social change, and operational in decision-making and planning processes. They then outline a five-tier hierarchy of growth foci with populations of varying sizes from a village to a central village, service centre, growth point, growth centre, and a growth pole, the last having a population of 2 million.

The Planning Commission has also given a spatial counterpart to its proposed policy for integrating rural and urban development on the lines usually advocated by regional planning experts with an agriculture-dominated village with a tiny population at one end and a manufacture-cum-service dominated city with a large population at the other end, and constituting a hierarchy of settlements for integrated rural-urban development.

And the net results

I AM NOT SURE if it is possible in practice to bring about a planned body of hierarchical settlements of the type mentioned in the Planning Commission's proposals or in those of non-official regional experts. Our efforts

at bringing about a planned setting up of industrial units on a desired basis have failed in spite of the armoury of controls, licences, financial incentives and other instruments. Market demand and class distribution of purchasing power have proved too powerful in the absence of a radical redistribution of productive assets and basic changes in the socio-economic structure. Nor have we succeeded in removing from the metropolises and the large cities their large concentrations of manufacturing and service units and dispersing them in the small and medium towns and the countryside. District and block level planning and local participation as instruments of decentralisation are still largely on paper, and development is taking place much more as a result of centralised decisions, departmental priorities, political pressures and bureaucratic management.

Our experience of thirty years of planning has shown the limitations of policy formulations, legislation, institution formation and financial assistance in bringing about the type of integrated development we have been talking about. The working of the political system and the functioning of political parties have not given the country the confidence that public interest will be treated as superior to private interest or that the public sector and governmental decisions will be more socially motivated than in the private sector.

It is recognised that planned development cannot be a mechanical process or be successfully implemented on a centralised basis. That is why every political party and all intellectuals swear by democratic decentralisation, release of people's energies for development through active participation in the planning and developmental processes, and promotion of self-reliance and integration at the local level. In actual fact, we all function quite differently. Even at the Central and State levels, popular participation is confined to the elected spokesmen in the legislatures who are subject to party discipline, political expediency and pressure lobbies. Government as an organised centre of power, influence and resources cannot be effectively guided either by public participation or public monitoring. Voluntary organisations based on the public as distinguished from sectional or local interests have practically no role in the influencing of public policy or action, while intellectual and research activity, even if it is objective and socially motivated, has hardly any impact on public programmes and policies.

BUT at least there are legislatures and ministries that are ostensibly responsible to the legislatures at the State and Central levels. When we come to lower levels in the hierarchy, the zila parishads, the small and medium town municipalities, the taluka boards, panchayat

samitis, and village panchayats, which should constitute the heart of decentralised planning and integrated rural-urban development, the position is worse. These local bodies have innumerable developmental functions; but their resources are most inadequate and have to be supplemented by grants from State Governments, which again are inadequate for financing their functional obligations. Apart from this basic deficiency, these bodies do not enjoy any real autonomy; many of them remain suspended and elections have the habit of getting postponed, sometimes for long years. While the State Governments are vociferous in demanding more freedom from the Central Government and full fledged autonomy, they have an entirely different attitude to organs of local government.

Many committees have reported on the need for revitalising our local bodies with but meagre practical results. Now we have the Asoka Mehta Committee report, submitted to the Janata Government and awaiting disposal at the hands of the Congress-I Government. I do not agree with the Committee's suggestion that village panchayats should be replaced by mandal panchayats with a population of 15,000 to 20,000 each as it is likely to threaten the future of village democracy at the participatory level. I would suggest instead the creation of village panchayats on the basis of a cluster of 5 to 7 villages with an average population size of 5,000 and integrated by inter-village transport and communication links and economic and socio-cultural services. This would make them integrated and viable communities with a sense of belonging and a recognisable identity, and also make them truly fit instruments for participatory democracy and integrated rural development.

FOR INTEGRATING rural with urban development, it is not enough to give representation to urban local bodies on rural local bodies and vice versa. As the Committee on Rural-Urban Relations has pointed out: "While such mutual representation may be useful in creating awareness of common problems, . . . such a step is not likely to bring us any nearer to the solution of the problems of rural-urban relationship. It is obvious that mechanical representation and joint-committees cannot be expected even to comprehend, much less to implement, the extremely complex policies and programmes so vital to effective national development." It also referred to the concept of region for integrating rural and urban development: "All these regions, large and small, include a fairly broad spectrum of agricultural, industrial, commercial and other types of activities, all closely inter-related and requiring various common services such as health, education, water supply, drainage and transportation. In the region, there is a hierarchical pattern of settlements bound together in a

system of functionally inter-linked and inter-dependent units. There is thus a continuum on communities that stretches from the smallest village to the largest metropolis". The Committee has remarked that the villages, which used to be more or less self-sufficient communities, have now become mere agricultural settlements and the small towns have come to play the role of focal points for community activities and service centres for socio-economic growth of the surrounding villages. It has recommended a common unit of planning and administration for their development and mentioned with approval the Japanese and Yugoslav policy of progressively amalgamating the smaller localities into larger workable communities under an integrated local government structure. The recommendations of the Asoka Mehta Committee are in tune with this view.

I find myself somewhat allergic to this whole concept of a hierarchy of settlements which are apparently to be the instruments for rural-urban and spatial integration. In actual fact the idea does not operate in both directions but results in dominance of the lower tier by the higher; and this is particularly unwelcome, as the lowest tier is the rural tier and it comprises not only the majority of the country's population but also the majority of the poor and socially and economically handicapped sections. It has an urban bias about it, and the idea of locating or identifying urban growth centres in rural areas and making public investments for giving them infrastructural facilities does not appear either desirable or realistic in terms of acceptable implementation for bringing about integration of rural and urban development. Indeed, it would drain away talent from the villages, leaving them stagnant with no occupational diversification and a small minority of prosperous middle and large farmers and no cultural or social identity.

THAT is why I have been pleading for a 'cluster' approach to village development. Small towns should grow out of such cluster villages rather than come independently into existence for serving rural areas. The rural areas should become integrated by having urban elements within them. My idea of a cluster neither means the transfer of population to a central village nor the mere totalling together of individual village requirements for purposes of planned investment. Each cluster must become not only a viable but also a live and integrated community with a recognisable identity and a sense of mutual belonging. This can be done not by centralising non-agricultural activities and service occupations or cultural or recreational facilities in one central village in the cluster, but by locating different non-agricultural activities in different villages and providing the cluster villages with such an efficient system of inter-village transport and commu-

nication as to make the individual village feel like a mohalla in a township or a street in a mohalla. The hierarchical network lays emphasis almost by definition on vertical links, and vertical links also imply dependence and dominance. What we require for integrated rural development as well as for integrated rural and urban development is the development of horizontal links that make for inter-dependence with mutual respect. It is this principle that I would like to see applied in rural-urban relations in settlements with populations of different sizes. A hierarchical system would become acceptable when it gives as much, if not more, weight to horizontal links as to vertical links.

It is at the grassroots level that we should lay the foundations for a national policy of integrated rural and urban development. Decentralised development is the key to the betterment of rural-urban relations and the panchayat system would be an efficient tool for the purpose, provided it is used for effective participatory democracy at the grassroots. This would require the following conditions to be satisfied :

1
A deliberate effort has to be made to create a sense of motivation and identification of panchayat committee members with the work of local development and welfare. Apart from using the mass media, all panchayat committee members and officials should be required to give an account of their work at periodic meetings of their local electorate.

2
Without adequate financial resources no panchayat system can deliver the goods. The system then loses its credibility, and this means a mortal blow to the development of responsible democracy, the effect of which is felt not only at the village level but also at the higher level of district, State and Centre. The panchayat system must therefore include not only compulsory taxation and statutory grants-in-aid but also division of State revenues and labour contribution in lieu of financial payment by the local population.

3
The system must provide for the accountability of local developmental officials to the local bodies.

4
The panchayat institutions must be brought into the mainstream of the planning process by participation in identifying needs, planning development and implementing programmes.

5
It is necessary to give legitimacy and credibility to the panchayat institutions by : (a) Compulsory periodic
(Contd. on p. 37)

COLLEGE OF AGRICULTURAL BANKING
RESERVE BANK OF INDIA
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Valedictory Address
M. Ramakrishnayya*

The small farmers' programme has been thought of on the basis of the recommendation of All-India Rural Credit Review Committee some years ago. This is truly a national intervention for rural development. Now the first lesson we get out of this is that such interventions are desirable. You may remember that in the early seventies, there was in fact a lot of criticism about the centre taking over the subject of agriculture from the states. The general argument was in favour of reduction of centrally sponsored schemes. In this context, national intervention for small farmers could appear anomalous. But such intervention had become necessary because at lower levels, i.e., at state, district, and panchayat levels, one finds it extremely difficult for leaders of society to sponsor schemes of countervailing power. Therefore, the centre has focused on whether programmes have been thought of and the strategies has been chosen for really improving the lot of small farmers.

The question is whether five years, six years or even seven years are enough to produce results. Rural development is so complicated that it cannot be accomplished in short span of time. I suggest this question particularly to those who work on evaluation. Evaluation should therefore be directed to see whether we are in the proper direction. Of course, the organizations have been working according to targets. Whether actual results have been forthcoming, whether guidelines for modifying and improving schemes exist is another matter. But what is important is to find out whether we are moving in a proper direction.

I think SFDAs have tried to establish focus on the small farmer and marginal farmer and identify them. When statistics show small farmers are in a very large number, it may sound funny to say that they have to be identified. But identification is necessary but not easy as there are some lacunae in our land records. At first SFDAs were organized in some districts and MFALs in others. This was to focus in some places exclusively on the small farmers and in others on the marginal farmers. But when practical problems arose in administration and the line between them got blurred, all of them were treated as one group and agencies asked to develop suitable programmes for the needs of both. I think in this process the focus aspect gets a somewhat neglected.

The next question is what sort of organization is adequate - society, statutory authority or corporation. This question keeps on occurring all the time. But a registered society cannot borrow funds, cannot give loans and collect interest charges and so on. That is the frame of the Act. As Mr. Page has said that the society form was chosen as it was the simplest form of a corporate body and as the Government of India could put money into it directly. The point I am trying to make is that if for matters of convenience a particular state prefers a corporation, there is

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no harm. There is no particular advantage in either form. SFDA has been given a catalytic role. Its funds are meant to attract other institutions to play their role. It is not meant to supplant the other institutions. One need not be ashamed if SFDA has come to be known as a subsidy distributing agency. But you should hang your heads in shame if having distributed the subsidies you have not attracted the larger funds from the cooperative banks and commercial banks. Banks are rather shaky or nervous about dealing with a large number of small borrowers. To create confidence in small farmers, you require faith. And SFDA's role is to create that confidence.

Some people say that commercial banks are not responsive and are not attuned to the small farmers. Then there are operational problems like branch managers not having enough powers for sanction. No doubt these difficulties have to be removed. It has been found that in many cases commercial banks have not come up to expectations. I am not saying that is universally true. I know a number of branches of commercial banks that have done, well, particularly, the State Bank of India, which have established what is called Agricultural Development Branches. In other words, a special institution oriented for the purpose of serving the farmer has been set up with trained staff. They have done good work. But in spite of this the leaders and thinkers at the centre thought that commercial banks alone may not be able to serve the purpose. So they have developed an institution called rural banks. Rural banks, however, have not figured very much in the discussion. I do not know whether the SFDA districts coincides with the districts where rural banks have been set up. If it is not so, then there is again a lacuna in planning. The mandate to the rural banks is that they shall not lend to anybody except to the small farmer. The rural bank's purpose is to cater to the needs of the small men and SFDA should take full advantage of this. Whether the rural banks have done well, whether there is any lacuna in them, and whether that is the right direction were considered by a committee headed by Prof. Dantwala. The broad recommendations is that the rural banks are good institutions and that we should develop them in other areas. Here again, there is some conflict between the rural banks and cooperative banks. Cooperative banks feel that the rural banks are competing with them by taking away their business. So far, the thinking has been that where cooperative banks are not able to deliver the goods, the rural banks should step in. When I say they do not deliver the goods, I mean deliver the goods to the small man. Incidentally, you would remember that cooperatives were started to help the small farmers. But eventually they have come to be captured by big farmers. Rural banks and Agricultural Development Branches of State Bank of India are examples of developing special credit institutions for the small farmers.

Another technique is reservation of some part of the credit facilities for the small farmers. For example, the ARDC which refines specialized projects and long-term projects had laid down a condition that in areas where these schemes are approved 50 per cent of the assistance should go to the small farmers. I have found that this is being done by and large. These are what called diversified programmes such as dairy farming, Sheep rearing, poultry or pig rearing. All these Programmes are refinanced

by the ARDC. Now, in all these programmes, which have been financed by the primary land development banks or state land development banks, a specific direction has been given (at least in some of the eastern states) that in carrying out irrigation and small farmers' programmes are singled out for refinance by ARDC irrespective of other overdues. This facility is now sought to be extended all over the country. Wherever the small farmers are recommended by the agency, they will be given loans by the land development banks, irrespective of the overdues of that particular bank. It is for the SFDA to take full advantage of these facilities. As regards repayment, my general impression is that small farmers do repay loans regularly unless influenced by leaders of opinion, if I may so call them, in the area. Otherwise, in cases of default I would rather put the blame squarely on the SFDA staff because they might not have drawn up the scheme properly so that the person can repay from the incremental income. In addition to the existing facilities, there may be some desirable directions in which the credit institutions have to adjust their policies, in order to help the small farmers. If there are useful suggestions, we will be certainly willing to consider and use our good offices with banks, cooperative, commercial or otherwise, to see that suitable additional facilities are made available to the small farmers.

One thing which is really difficult to ensure is coordination. Coordination is as old as history. When tasks become diversified, when a large number of people have to work together, coordination becomes absolutely essential. Somebody might say, let SFDA become a bank itself and let it have adequate funds. When there is limitation on funds, this is no solution. At some stage or other you will have to depend on some other institution. You must know that your success depends upon ABC & D and not on yourself only. Unfortunately, in administration, this is still not really understood. And I have heard about this at the senior level, junior level, and at the middle level. But nobody has produced a magic solution for this problem of coordination. Now the only solution, in my view, is that the top management first of all have empathy with all subordinates and colleagues and must have the necessary authority to enforce. Attempts have been made in the recent past to dilute the authority of the District Collector. In the Chinese system, they work as a team and if Indians meet they work as individuals. Now rightly or wrongly, we have an institution called the District Collector who has been made the Chairman of the SFDA for the purpose of coordination. Now coordination is as good or as bad as his personality, his knowledge, and his capacity as the district collector. By and large, SFDA should be able to achieve the required coordination through the collector. But if there is a general lack of coordination in any areas, I do not think any seminar can help to improve the situation. It is really a question of going back to the areas and telling squarely that the particular coordinator does not work. There are palliatives or mitigating factors, with which we can reduce the disaster that arises from lack of coordination and one of the most important palliatives is the preparation of a loan. Of course, you cannot take a horse to a pond and force it to drink. However, a plan is essential. But in actual practice you will find that it is not possible to have a next plan drawn up for all five years before hand. You have to improvise,

you have to find various kinds of solutions as problems come along. And that is where the Project Officer has a role to perform. The Project Officer is the alter ego of the Collector. In other words, he is the deputy coordinator. He is the person who has to be very tactful and coordinate the various agencies both inside and outside the hierarchy. I know of a case in which a coordination with a bank has not worked well, because the bank's bureaucracy feel they are answerable to their head office, or regional office and not to anybody outside. This barrier is gradually breaking down. The bankers are realizing slowly that they are not merely persons who collect deposits, lend them and make profit. The banker is beginning to think that he is an agent of economic and social change. The banker is almost like any other officer providing credit. He should really be a credit deployment officer. He is really becoming an agent of change.

In many areas great progress has taken place, however, much more can be achieved if we can increase the pace of training bankers. The point is that when you want a bank or credit institution to finance a scheme and when your concept is that the small farmer is to be assisted not merely to meet his immediate problem but in order to add to his capital assets so that he becomes viable, the kind of scheme we are thinking of requires a great deal of technical inputs. We speak about what is called a "bankable scheme". A bankable scheme is one which produces an incremental income from which the beneficiary can repay to the bank. It is amazing but it is a fact that if you go round you find leaders of opinion propagating that credit is not meant to be repaid. A cooperative loan, it is said, is not meant to be repaid. Gradually the bank loan is also found to go into that category. We want to arrest that tendency. The small farmer does not know how to acquire strength and repaying capacity. For this is where higher technical inputs from various kinds of disciplines become necessary and this places a very great responsibility on technical personnel. May be, a highly paid and highly qualified person located for a village, who is given all the resources, may be able to produce solutions. But we cannot afford to do that. We do not have so many. This is where the higher agencies responsibility lies in producing what is called a "model scheme" with a lot of technical inputs. For example, there has been a demand that certain agricultural labourers or marginal farmers can make a living only by plugging an animal driven cart for purpose of transport. The question of converting this idea into a bankable scheme would require certain thinking, certain knowledge of technology, something to do with the bullock cart, something to do with the health of the bullock, something to do with the economics of transport. When 50 bullock carts are economical we sanction 500 and all of them become uneconomical. This is where higher technical input is required. For this technical input we generally rely on the departmental staff of the government. Sometimes difficulties arise in getting cooperation from this staff. We have, therefore, been impressing on the banks to employ their own technical personnel. Now the point is whether SFDA can have such staff of its own. Depending on the numbers to be catered to be done, exclusive technical staff for SFDA could be a viable idea. For, the work of SFDA is not the preparation of schemes but supervision of credit. If such supervision is ensured, the banker will feel more confident. SFDAs must ensure that

confidence. Now whether this could be done by additional staff being given by the state administration attached to the SFDAs or the banks can be argued. For example, some states have given special staff to Land Development Banks. I think this is a desirable direction in which SFDAs can strengthen themselves.

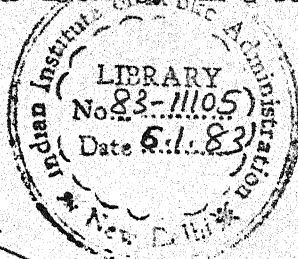
I am sure there are a number of success stories after 6 to 7 years of operation of this scheme. I have not come across any conscious attempt to highlight some of the success stories. Failures, of course, are there and all evaluators generally concentrate on failures. But I suggest that the time has come to identify the success stories.

We used to spend a lot of time discussing who is a small farmer. The whole question is -- In a country like ours can we have one definition for the entire country? It varies from district to district. I think in Rajasthan 10 or 12 acres is considered to be a thumb-rule on which a small farmer is identified and the Agricultural Credit Department of Reserve Bank of India has made some exercises and they have divided the districts on the basis of data collected and fixed different acreage norms for different districts. The figures read as follows:-

8. acres in seven districts,
7. 5 acres in eighty-five districts,
6. acres in two districts.
5. acres in one hundred and ninety-two districts,
3. acres in fifty-nine districts, and
2. 5 acres in three districts.

Like this, some attempt has been made to study the data of each district and of course in the district also you have pockets, areas and so on. Conceptually we go on refining the norm, but there must be a thumb-rule for those persons who have the good fortune of working for the small farmers. So long as we are in the right direction I do not think we should be greatly alarmed about the divergencies.

Now, about Haldipur's passionate plea for an organization of small farmers. I am inclined to agree with him that nothing happens unless those who want to benefit organize themselves. But emphasize on the concept of organizing themselves. Bureaucrats are not the efficient instruments for bringing about such organizations. There are others. I need not name them. But they will get into this business only when they white collar workers were not organized. They have since got themselves organized and pressure groups have been formed. Democracy runs on the basis of pressure groups apart from the enlightened self interest of the society as a whole and the realization that the vote matters. In a sense, answers to all economic questions lie in politics.



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